

# PROBLEMS AND EXERCISES IN ECONOMICS

REVISED EDITION

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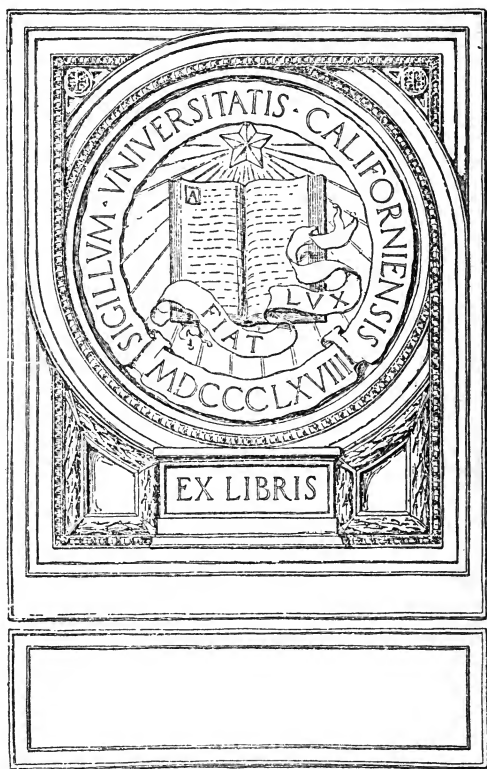
BY GORDON HAYES

Professor of Economics, Ohio State University



NEW YORK  
HENRY HOLT AND COMPANY

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## PREFACE TO THE FIRST EDITION

This book of problems and exercises, originally prepared for the use of students in the University of Minnesota, has been thoroughly revised and enlarged for the present edition. It is designed to serve teachers and students in the Principles of Economics by furnishing illustrative problems and exercises in convenient form. It is believed that the use of such problems will tend to accomplish the following results:

- (1) Illustrate the principles of the science and the subject-matter of the text.
- (2) Form a basis for class discussions, and for discussions by students outside of class.
- (3) Promote close thinking on the part of the student.
- (4) Encourage students to read more critically.
- (5) Stimulate interest in the subject.

The problem method succeeds best when certain problems are assigned for written exercises, the papers read and returned to the student, with errors indicated, to be corrected and returned to the instructor. For large classes this plan can be best followed by having special assistants to read the

papers. But preparation of the papers by the student, even if some, or all of them, may not be given specific criticism, is eminently worth while, as is the study of problems without reducing the answers to writing. A few suggestions with regard to the method of attacking problems, together with a scheme for the preparing and marking of papers, are included at the end of the book. It is suggested that teachers use care in assigning problems, that those which are too difficult for the student or those for which help is not contained in the text or assigned reading shall be omitted.

The outline of the book, and the order of arrangement of the problems follow, in general, Professor Seager's *Principles of Economics*, which it is intended to accompany. As the problems and exercises relate to the general principles of economics rather than to the particular subject-matter of the text, and as many of them contain within themselves most of the data needed for their solution, the book should prove practically as well suited to accompany any other text-book.

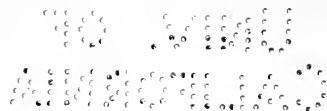
The author wishes to acknowledge a very special indebtedness to Professor F. M. Taylor, of the University of Michigan, first, for the general idea of the problem method which is embodied in this book; secondly, for the training, while student and teacher under his direction, in his method of constructing problems and adapting them to effective use; and thirdly, for a large number of problems either copied



or adapted from his *Principles of Economics* and from his lists of examination questions, for which he gave generous permission. The author is also under special obligation to Dr. Carl E. Parry, of the Ohio State University, for valuable suggestions and criticisms. In addition, he wishes to express appreciation for permission to use a few problems prepared by Dr. Parry, and a few from the *Outlines of Economics* published by the University of Chicago Press. Such problems, together with those from Professor Taylor, are indicated by the appropriate initial, without parenthesis if copied, with parenthesis if adapted.

H. G. H.

MINNEAPOLIS, 1916.



## PREFACE TO THE SECOND EDITION

The list of problems published six years ago has been considerably altered for the present edition. While some of the problems of the first edition are included in this edition without alteration, for the most part substitutions have been made for the original problems or they have been rewritten.

H. G. H.

COLUMBUS, OHIO,  
*April, 1922.*

# PROBLEMS AND EXERCISES IN ECONOMICS

## I.

### INTRODUCTION.

1. *a.* Mention several wants which you have which are dependent upon economic goods for their satisfaction.

*b.* Mention wants which you have which are in no way dependent upon economic goods for their satisfaction.

2. Define economics. Amplify the definition showing what the science includes and what it excludes.

3. *a.* Are the questions suggested by the following terms economic: prison reform, Sunday baseball, six-year presidential term, intercollegiate athletics, eight-hour day, submarine warfare?

*b.* Do those which are not economic involve economic considerations? Explain.

4. List five important questions of the day. Design-

nate those which are essentially economic and those which involve economic matters.

5. List five questions of local importance in your city or town. Which of these are economic? Which involve economic matters without being essentially economic?

6. Name some of the laws of your state that have economic consequences. Can you mention any important state law that is without economic effect?

7. Is the main purpose which you hope to accomplish in life economic? If not, is it in any degree economic?

8. How is family life dependent upon economic conditions?

9. Do you believe that social prestige is largely dependent upon economic possession? If so, is the fact regrettable? Discuss.

10. Suggest two subjects of interest to economics students to-day that were not considered fifty years ago. Account for their development.

11. Give an historic illustration of the fact that economic strength is vital to the life of a people.

## II.

### RISE OF MODERN INDUSTRY IN ENGLAND

12. *a.* State the chief characteristics of the manorial system.

*b.* What were the advantages of that system as compared with our present industrial system? The disadvantages?

13. What was the main purpose of the guilds? When did the gild system flourish? Account for the displacement of the manorial system by the gild system and for the subsequent failure of the latter.

14. "Statutes of Laborers—passed in 1351, and subsequent years—seem to have had little practical effect."—SEAGER, p. 7. Account for these laws and for their failure.

15. *a.* What was the mercantile system? Give the approximate dates for the beginning and end of this system.

*b.* Account for the rise of this system? For its decline?

c. Is our present economic system more or less mercantilistic now than it was fifty years ago? Explain.

d. Were the American colonists at all affected by the mercantile policy of England? Explain.

16. a. When did the industrial revolution take place?

b. Discuss the effect of this revolution upon life and industry.

17. a. What do the words *laissez-faire* mean?

b. What is meant by a *laissez-faire* policy?

18. "The policy of *laissez-faire* was an inevitable product of the time in which it originated."

a. Give the supporting argument.

b. Does this help to account for the abandonment of the policy of mercantilism?

19. Give reasons for preferring to have lived before the advent of the factory system; for preferring to live under the factory system.

20. Did the factory system lead to a modification of the *laissez-faire* policy? Explain.

21. Is the tendency to-day toward a greater or a

lesser application of the *laissez-faire* policy? Cite evidence to support your answer. Account for this tendency.

### III.

## THE INDUSTRIAL EXPANSION OF THE UNITED STATES.

22. "The industrial opportunities that prevailed in the United States during the last two centuries made the *laissez-faire* principle inevitable." Give supporting argument.

23. "Very early the North and South began to quarrel about protection to manufacturing industries."

a. State explicitly just why there was a conflict of interest in regard to protection.

b. Does this conflict of interest still exist? If so, has it at all abated? Cite evidence in support of your answers.

24. State the chief economic advantage that has resulted from the development of our railroads; the political advantage; the general social advantage.

25. Account for the fact that in Nevada, Mississippi and Vermont the population decreased during the decade ending 1920, while for the country as a whole the population increased 14.9 per cent.



26. Account for the fact that the increase in our population per decade was approximately one-third from 1790 to 1860; one-fourth from 1860 to 1890; one-fifth from 1890 to 1910; and one-seventh from 1910 to 1920.

27. Cite evidence to support "the growing conviction that in protecting liberty and property the government of the United States has neglected the interests of equality."

28. "From 1900 to 1915 the number of wage-earners in establishments producing iron and steel increased 25 per cent and the value of the products increased 56 per cent." What is the significance of this statement? Would the increase in the volume of manufactured goods as compared with the increase in the number of laborers in manufacturing establishments be more vital than this comparison? Explain.

29. "In 1850 we produced 1 ton of cereals per person. In 1900, with a smaller proportion of our population engaged in agriculture, we produced  $1\frac{1}{2}$  tons of cereals per person."—SMITH, *Industrial and Commercial Geography*, p. 556. How do you account for this increase in product per person?

30. "Relatively our exports of manufactured products are increasing at the expense of our ex-

ports of agricultural products." Account for this fact. Argue that we may expect a still greater relative increase in the export of manufactured goods.

31. "The per capita foreign trade of the Falkland Island is about \$600 per person, while that of the United States is less than \$40 per capita."—SMITH, *Ibid.*, p. 683. Why is there such a marked difference in the foreign trade of these two communities? Can you judge the relative economic well-being of the inhabitants of these communities from these facts? Explain.

32. *The Annalist*, January 17, 1916, estimated our foreign trade for 1915 at \$5,350,000,000, and our home trade for the same year at \$507,000,000,000. It was also estimated that "all of our foreign commerce since the Civil War made but one-fifth of the home trade in the year 1915." Why is the volume of our foreign trade so small relative to our domestic trade?

33. "The citizens of the United States have invested less than one per cent of their wealth abroad while the citizens of England have made foreign investments amounting to a much larger percentage of their wealth." Account for this difference. May our foreign investments be expected to increase? Explain.

## IV.

### ECONOMIC CONCEPTS.

#### A. ECONOMIC ACTIVITY.

34. Have you ever engaged in economic activity? If so, what motive, or motives, prompted you to do so?

35. Make a list of the motives to business activity that perhaps characterize (*a*) a student canvasser; (*b*) a college graduate entering a profession; (*c*) a manufacturer; (*d*) a railroad magnate; (*e*) an actor; (*f*) an unskilled street laborer.

36. What motives to business activity are most worthy; least worthy?

37. Explain the meaning of the expression "business is business." Should "business" be "business"?

#### B. ECONOMIC GOODS AND THEIR VALUE.

38. An economic good is one that has value, that is, commands a price. An economic good is one in

the use of which we economize. An economic good is one that has both utility and scarcity.

a. Are these definitions in agreement or do they conflict?

b. Which of them is the more fundamental? Why?

c. Construct similar definitions for a *free* good.

39. When was the land in your neighborhood a free good? When did it become an economic good?

40. "A thing may have value and not be useful: e.g., an old stone prized by a collector." Point out the error.—T

41. "A horse is no wealth to us if we cannot ride, nor a picture if we cannot see, nor can any noble thing be wealth except to a noble person."—RUSKIN, *Munera Pulveris*, p. 25. Contrast the meaning of the word "wealth" in this statement with the meaning given to it by economists.

42. Are the following economic goods: sunshine, a good disposition, fresh air, water in Lake Superior, the skill of a surgeon, the services of a surgeon, whisky, old postage stamps?

43. Account for the difference between the earnings (wages) of a school teacher and a celebrated

musician; a coal miner and a mining engineer; an agricultural laborer and a movie star.

44. The pelt of a chinchilla—a piece of fur about the size of a man's hand—sells for \$70. Account for this fact.

### C. PRODUCTION AND CONSUMPTION.

45. Adam Smith referred to household servants as "unproductive laborers." Show that servants are productive. What do they produce? Give some justification for Adam Smith's terminology.

46. "The only real producers are the miners, lumbermen, and farmers; for they are the only ones who add something to the total wealth." Show that there is no essential difference in the contribution of the farmer, the miller, the baker, the grocer, and the delivery man.—T.

47. "Let us do away with all these non-producing parasitic middlemen."

a. Name three or four classes of middlemen.

b. Argue that competition tends to eliminate all middlemen who are not rendering productive services.

48. Is the teacher a producer? What does he produce? Answer the same question in regard to a

cook; a laborer in a chair factory; a chair manufacturer.

49. Are the majority of University students producers or parasites? Explain.

50. If one is not a producer, in what two ways can he get economic goods by which to live?

51. An automobile may be both a producer's good and a consumer's good. Illustrate.

52. "There is not a real antithesis between production and consumption. Production goods are merely consumption goods a little less ripe." "Yes, but it is of the greatest importance to the individual and to society that the difference between these two classes of goods should be clearly recognized." Discuss the validity of the second quotation.

53. "The car company was not responsible for the accident, but I got \$800 damages for my client. I kept \$400."—A lawyer. Was this lawyer's business activity productive or predatory? Discuss.

54. Mention several laws that prohibit predatory production.

55. Suggest forms of predatory production, now allowed, that should be prohibited by law.

## D. ECONOMIC LAW.

56. "The wage of labor tends to approximate the standard of living."

"Every man should be paid a living wage."

"Employers shall not pay laborers less than \$5.00 per day."

a. What kind of law, or principle, does each of these statements exemplify?

b. What conflicts, if any, exist, or may exist, between these laws?

57. "A law, limiting the rate of interest to six per cent in western Canada, would be opposed to economic law and would thus be doomed to fail." Explain what is meant.

58. Formulate an economic principle that is arrived at by the deductive or *a priori* method; one that is arrived at by the inductive, or *a posteriori* method. Explain each.

## V.

### CONSUMPTION OF WEALTH.

59. Illustrate the law of diminishing utility from your own experience.

60. "Eat, drink, and be merry, for to-morrow we die." Is this statement more characteristic of primitive or of civilized people? Of educated or of ignorant people? It is more characteristic of certain nationalities than it is of other nationalities? Discuss.

61. Why does the clerk say to the hesitating customers, "We are selling lots of these now"? Are our economic wants largely determined by the attitude of our fellows? Discuss.

62. Let the following schedule represent the demand in a given market:

DEMAND					PRICE				
1,000	bushels of	potatoes	would be	taken at	55	cents	per	bushel	
1,100	"	"	"	"	"	"	"	54	"
1,200	"	"	"	"	"	"	"	53	"
1,300	"	"	"	"	"	"	"	52	"
1,400	"	"	"	"	"	"	"	51	"



a. Draw a graph to show the facts indicated in this schedule.

b. Alter the schedule to show a much greater degree of elasticity in the demand. Alter the graph to correspond to the new schedule.

63. Formerly, an expert cabinet maker could be found in almost every locality. Why is this not true to-day? Discuss.

64. Illustrate uneconomical consumption.

65. Distinguish between economic necessities and luxuries.

66. Show that expenditure for luxuries cannot be justified on the ground that such expenditures "make work."

67. Distinguish between saving and spending. What is the advisable division of income between saving and spending? Discuss.

68. The servant class in the Philippine Islands greatly resented the displacement of the Spanish by the Americans since the latter did not employ nearly so many servants.

a. Was this a hardship to servants?

b. Argue that the Filipino laborers as a whole did not lose by this economy of the Americans.

c. Show that this economy in servants may be expected to have benefited the whole number of Filipino laborers.

## VI.

### PRICE.

69. *a.* Why do we have prices set on goods and services? Is this really necessary?

*b.* Why do certain goods and services demand very high prices while other goods and services command very low prices, or no price at all?

70. Should you expect that an increase of one cent per pound in the price of sugar would lead to any reduction in the amount of sugar that is used? On the basis of your answer, what is the relation between the price of sugar and the marginal utility of sugar? Explain.

71. Should you expect that certain buyers of Ford automobiles are marginal buyers, that is, persons who would not purchase Fords at any higher price? If as many Fords as are now being sold could be sold at a higher price, what is the relation between the price of Fords and the marginal utility of Fords to buyers? Discuss.

72. Explain in terms of the text why a person will buy a seat at the theater for \$1.10 when there are

more desirable seats which he might purchase for \$1.50 or \$2.00. Does the price set for the seats in each section tend to correspond closely to the utility of seats to some buyers of those seats? To all buyers? Discuss.

73. "The marginal utility of a given stock of goods is the highest price at which all of the units of that stock can be sold." Is this statement in agreement with your text? Explain.

74. "All the units of a good have the importance—take the value—of the least wanted unit."

a. Why is this true? Illustrate.

b. Has this statement any relation to the marginal utility theory of value? Explain.

c. May the buyer with the least want, as measured by price offer, have the keenest desire?

75. Explain the so-called paradoxes of value. They are as follows:

a. A more useful article, like bread, is less valuable than a less useful article, like diamonds.

b. A most useful article, like air, may have no value at all.

c. A part is sometimes more valuable than the whole; for by destroying a part, the remainder is often worth more than the whole.

76. Show that the prices paid for the various kinds of service involved in building a house are complementary to each other. Are cases involving the principle of complementary price determination of frequent, or of rare occurrence? Discuss.

77. "Those who speak of diamonds having no use-value, and of food having infinite use-value, must be drawing their ideas, not from the life of men but from the life of cattle."—SMART, *Theory of Value*, p. 22. Explain. Why is the price of bread low and the price of diamonds high?

78. "The production and sale of most goods is going on continuously."

a. Is this true of articles of clothing, food, fuel, and furniture? Is it true of the equipment and raw materials of manufacture? Of dwelling houses? Of land?

b. If the market supply is made up of constantly changing units, produced and offered for sale by competitors, what relation will tend to exist between price and cost? Why?

c. Does the length of time that must elapse before this relation is brought about differ in the case of different goods? Does it differ greatly? Why or why not? Give several illustrations.

d. What determines price in the case of the goods

the supply of which cannot be increased? Explain and illustrate.

79. The prices of automobiles fell for several years before the war, then increased, and since the spring of 1921 have gradually fallen. How do you account for these price changes? How much lower will these prices go?

80. A shoe firm in Minneapolis posted the following "special sale" schedule on its walls:

LADIES' SHOES	MEN'S SHOES
\$5.00 values for \$3.75	\$5.00 values for \$4.00
\$4.00 values for \$3.00	\$4.00 values for \$3.20
\$3.00 values for \$2.25	\$3.00 values for \$2.40

Upon being asked the reason for the difference in the two price schedules, the manager said: "There is more difference between the wholesale and retail prices of ladies' shoes than of men's shoes." Account for the fact stated in the quotation.

81. *a.* If wooden chairs can be produced at a cost of thirty cents per chair, including necessary profit, regardless of the quantity produced, what should you expect to be the price of such a chair? Why neither more nor less?

*b.* If the manufacturers should be taxed ten cents for each chair produced, what effect would this tend to have on the price of such chairs?—(T.)

82. Name several articles that you should expect to be produced at a uniform cost per unit regardless of the amount produced.

83. Name several articles the production of which you should expect to entail greater cost per unit as the amount produced over a given period of time is increased. Explain.

84. Name several articles the production of which you should expect to entail less cost per unit as the amount produced over a given period of time is increased. Explain.

85. *a.* Construct three supply and demand schedules, for, respectively, a good of which a varying number of units can be produced at a uniform cost per unit; a good of which the cost per unit increases as the amount produced over a given period of time increases; and a good of which the cost per unit decreases as the volume of output increases. Use the following model:

SUPPLY				PRICE	DEMAND			
.....	units	will	be pro-	.....	per unit; at which	.....	units	
.....	duced	for	sale at	.....	price buyers would take	.....		
.....	"	"	"	.....	"	.....	"	
.....	"	"	"	.....	"	.....	"	
.....	"	"	"	.....	"	.....	"	
.....	"	"	"	.....	"	.....	"	

*b.* Draw graphs to show the facts indicated by each of these supply and demand schedules.

c. In which of the schedules could the words "but no more" be added after the word "units" in the supply column? In which one could the words "but no less" be added after the word "units" in the supply column? Discuss the point involved.

86. Decreasing costs per unit of output as the volume of output is increased may be due either to economies effected, on account of an increased volume of output, in the various stages through which an article passes from raw material to finished product, or to economies that come from individual plants producing on a larger scale. Illustrate each class of economies.

87. Assume the following individual supply schedules for three producers of a certain good:

SUPPLY			PRICE
A	B	C	
700	800	500	25 cents
1000	1000	800	20 "
1500	1200	1000	15 "
1700	1500	0	10 "
2000	0		8 "
0			5 "

a. If buyers will take 2000 units at 20 cents, 4500 at 15 cents, and 5000 at 10 cents, how many units will be produced and sold by A? By B? By C? What profit will A make? B? C?

b. If a tax be levied upon excess profits how should



you expect it to affect A? B? C? Would such a tax tend to change the selling price of this good? Explain.

88. If a tax be levied upon each unit of a good that is produced under competition and at an increasing cost per unit as the volume of output increases, will the selling price be affected? Explain.

89. "We may expect the price of meat to steadily increase." Why so?

90. *a.* With a fixed supply of 300,000, what price will be set when the supply is controlled by competing sellers if demand is as in (A) ; if as in (B) ?

PRICE	DEMAND	
\$4.00	(A) 175,000	(B) 20,000
3.00	240,000	100,000
2.00	260,000	300,000
1.00	280,000	700,000
.50	300,000	1,000,000

*b.* If the sellers combine, what price will be set with demand (A) ; with demand (B) ?

*c.* Will combination prove most profitable under demand (A) or demand (B) ?

*d.* Formulate a general principle for monopoly price on the basis of the conclusion reached in *c.*

*e.* If a fifty-cent tax be levied upon this good, what will be the price under monopoly in (A) ; in (B) ?

*f.* Formulate a general principle relating to the shifting of a monopoly tax on the basis of the conclusion reached in *e*.

91. Change part *a* of the above problem to read—If any amount can be produced at a cost of fifty cents per unit—and answer above questions.

92. Assume the following supply and demand schedule for a certain grade of oil:

SUPPLY MIL. GAL.	PRICE CENTS	DEMAND MIL. GAL.
60	7	100
100	6	150
150	5	200
200	4	300
300-400	3	400

- Under competition, what price will prevail?
- Under monopoly, what will be the price?
- What dilemma confronts the monopolist when he is controlling a decreasing cost good? Illustrate.
- What will be the effect upon price if a one-cent tax should be levied upon the amount produced under competition? Under monopoly?

93. *a.* If a large part of the people who now make beef and pork a part of their diet should permanently discontinue the use of these foods, what effect would this change tend to have on the price of bone fertilizers? Explain fully.

b. This change in the price of bone fertilizer, by affecting the price of the fertilizer which is a by-product of the fish industry, would affect the price of fish. In what way?

94. Factories often operate during dull seasons and sell their products at prices at which they could not afford to sell over a long period of time. Explain fully why this is true.

95. If the demand for mutton should increase permanently what would tend to be the long time effect upon the price of cotton clothing? Develop the argument step by step.

96. If a certain site yields \$400 net rent per year, and is expected to yield this amount permanently, and the market influences have fixed the rate of capitalization for land income at five per cent, the price of the site will be \$8,000.

a. What is the computation process by which the price is thus fixed at \$8,000?

b. If a tax of \$100 per year be imposed upon this site, what will the net income from the site then be? The price of the site?

c. Will the landlord not raise his rent to \$500 and force the tenant to pay the tax? Explain carefully.

97. "The imposition of a new tax on a piece of

land is equivalent to a partial confiscation of said land; the removal of a long-standing tax is equivalent to a free gift to the owner of said land." Explain fully.—T.

98. Certain reformers urge that taxes on buildings be decreased, or wholly removed, and taxes on land be correspondingly increased. What effect would this tend to have on:

- a. The rent of city lots? Explain.
- b. The selling price of city lots? Explain.
- c. The rent of city buildings? Explain.
- d. The selling price of city buildings? Explain.

## VII.

### PRODUCTION: LAND.

#### A. WHAT IS LAND?

99. *a.* What is land?

*b.* Is the fertility in the soil part of the land?

*c.* Should fences be classed as land? Tile drains? Trees in a young orchard? Trees in a wood lot?

*d.* Does difficulty of making distinctions in particular cases warrant the conclusion that such distinctions are useless? Illustrate.—(T.)

100. "The supply of land is fixed." "The supply of land is elastic. Witness the great increase in the supply of land during the past century." Discuss the point at issue.

101. What are the chief points of difference between land and other goods? These differences furnish the basis for what tax proposal?

#### B. DIMINISHING RETURNS.

102. Why do not farmers confine their work to one

TABLE OF COMBINING PROPORTIONS\*

I	II	III	IV	V	VI	VII	VIII	IX
No. of comb.	Amount A's	Amount B's	Output	Increase of output if propor. to increase of B's	Actual increase of output	Average output in A's	Average output in B's	Marginal product of B's
1	20	2	2	..	..	.1	1	1
2	20	3	6	(1)	4	.3	2	4
3	20	4	16	(2)	10	.8	4	10
4	20	5	35	(4)	19	1.7	7	19
5	20	6	84	(7)	49	4.2	14	49
6	20	7	126	(14)	42	6.3	18	42
7	20	8	156	(18)	30	7.8	19.5	30
8	20	9	179	(19.5)	23	8.9	19.8	23
9	20	10	200	(19.8)	21	10	20	21
10	20	12	236	(40)	36	11.8	19.7	18
11	20	14	266	(39)	30	13.3	19	15
12	20	16	290	(38)	24	14.5	18.1	12
13	20	18	312	(36)	22	15.6	17.3	11
14	20	20	330	(34)	18	16.5	16.5	9
15	20	22.2	346	(36)	16	17.3	15.6	7.2
16	20	25	362	(43)	16	18.1	14.5	5.7
17	20	28.5	380	(50)	18	19	13.3	5
18	20	33.3	393	(63)	13	19.6	11.8	2.6
19	20	40	400	(78)	7	20	10	1.1
20	20	44.4	398	(44)	All Decreases	19.9	8.9	All Minus Quantities
21	20	50	393	(50)		19.6	7.8	
22	20	57.1	360	(56)		18	6.3	
23	20	66.6	280	(60)		14	4.2	
24	20	80	140	(56)		7	1.7	
25	20	100	80	(35)		4	.8	
26	20	133.3	40	(26)		2	.3	
27	20	200	20	(20)		1	.1	

\* This table, together with a few of the questions based on it, is taken substantially, with some adaptations, from Taylor's *Principles of Economics*, ch. IX.

acre of land? Why is it socially important to increase the available stock of land by improvements such as drainage and irrigation projects, and transportation facilities?

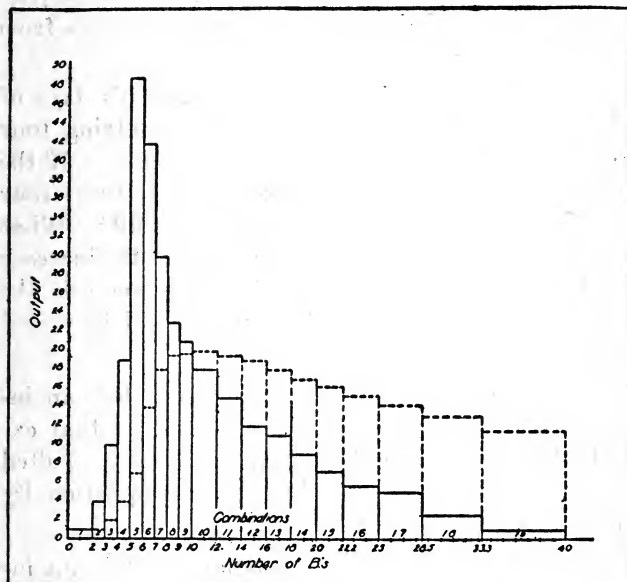


DIAGRAM OF ABOVE TABLE

Continuous line—Rectangles measure actual increase in output at each combination (col. vi).

Broken line—Rectangles measure increase in output if increase were proportional to increase in B's (col. v).

103. The foregoing table shows the possible results from taking a given quantity of land (A) and com-

binning with it, using upon it, a gradually increasing number of days of labor (B). It may, of course, also be used to represent the application of varying units of coal to a furnace, of labor to a factory, or of any variable factor to a fixed factor. Note particularly the second, third, and fourth columns from which the other columns are derived.

*a.* If A's represent acres of land and B's days of labor, what product will result from applying four days of labor to the twenty acres of land? If the days of labor are increased one-fourth, from four to five, what increase in output will result? What would have been the increase in output if the increase had been proportionally equal to the increase in the days of labor, that is, if the output had increased one-fourth?

*b.* During which of the combinations does an increase in B's lead to an increase in output that exceeds the increase in output that would have resulted if the increase in output had been proportionally equal to the increase in B's?

*c.* During which of the combinations does an increase in B's lead to an increase in output that is less than the increase in output that would have resulted if the increase in output had been proportionally equal to the increase in B's?

*d.* Column VIII, derived from columns III and IV, shows the average output per B in each combination. During which of the combinations does the



average output per B increase if more B's are added?

e. During which of the combinations does the average output per B decrease if more B's are added?

f. During which of the combinations does the output per A increase if more B's are added?

g. The combinations suggested in *b* mark the stage of *increasing returns*. Using the term "changing factor" instead of "B," state what is meant by saying that an industrial unit—a factory, a furnace, or a parcel of land—is in the state of increasing returns.

h. The combinations suggested in *c* mark the stage of *diminishing returns*. What is meant by saying that land is in the stage of diminishing returns?

i. "The stage of diminishing returns is not marked by a decrease in total return; nor is the beginning of the stage of diminishing returns necessarily at the point where return per addition of changing factor becomes less." Show that this is true.

j. If A's were free and B's were not, which combination would you use, 9 or 19? If B's were free and A's were not? If neither were free, within what combinations would you work? Just what will determine the combination that one will use?

k. Show that it will never be profitable to work in the stage of increasing returns if it may be avoided.

l. Column IX shows the amount of output added by each additional B. If you were working at the 16th combination, what could you afford to pay, in terms of output, for another B? If all land is being farmed, say, in the 11th combination, what wage will be paid, in terms of output, assuming A's to be acres and B's laborers? Why neither more nor less?

104. "As an industrial society, we should seek to work just at the beginning of the stage of diminishing returns; but individual landowners will find it most profitable to work at the point of maximum output if wages are low enough to warrant it."

a. Prove the first statement.

b. As a society, how can we keep out of the later combinations?

c. Prove the second statement.

d. How low must wages measured in output go to warrant the land-owner in using the 19th combination in the above table? What rent will the landlord enjoy at this combination assuming that there are no costs other than labor cost?

e. What wage will warrant the landlord's using the 11th combination but not the 12th? How much rent will be received at the 11th combination?

f. What fractional part of the per capita product is wages at the 11th combination? What part is

rent? Answer similar questions for the 17th combination.

105. "When one gets into the stage of decreasing returns he begins to lose money." Do you agree?

106. "The law of diminishing returns presupposes no technical changes in method." Show the necessity for this limitation.

107. "It is of course true that industry, especially agricultural industry, is subject to the law of diminishing returns. Nevertheless, history shows very plainly that, as population has increased from a few millions to more than a billion, the supplying of the economic needs of society has become not more difficult but much easier." Show that the two statements are not contradictory.

108. "If it were not for the law of diminishing returns, every farmer could get rich simply by doubling frequently the outlay on his business." This statement would not be made by a person who knew exactly what is meant by the law of diminishing returns. Explain why.—(T.)

109. "The formation of boys' corn clubs is an excellent thing. Some of the boys who belong to these clubs have, by devoting their time to a single acre, raised upon it as much as two hundred bushels

of corn. This sort of intensive cultivation shows the possibilities of American agriculture, and should be encouraged."

*a.* Under what conditions is intensive agriculture economical?

*b.* Is America in position to practice intensive agriculture?

*c.* What fundamental economic law is overlooked in the above question?—T.

## VIII.

### PRODUCTION: LABOR.

110. Define the economic term *labor*.

111. What do you understand by the expression: "the cost of product expressed in human terms"?

112. Is any labor pleasant? Is a large degree of it pleasant? What kind is most pleasant? Least pleasant? Is the pleasure to be derived from work conditioned upon the aptitude of the worker for his particular work? If the worker feels that his work is worth while, will he derive more pleasure from it than if he regards it as only a means of getting an income?

113. "We must seek to make labor more efficient." "We must strive to make life as rich as possible. This may call for less rather than for more work,—for less, rather than more, high-speed efficiency."

*a.* What possible difference in point of view is indicated by these statements?

*b.* With which point of view are you most in sympathy?

c. May the two statements be reconciled? Explain.

114. "Specilization is necessary to a high degree of efficiency."

a. Enumerate the many advantages of having each person engage at some one task. Are there any disadvantages in such a procedure? Explain.

b. Show that the degree to which one can devote himself to some one occupation depends upon the extent of the market, and that the degree to which one can devote himself to some one task within an industry depends upon the size of the plant. Does the size of the plant depend upon the extent of the market?

c. May we expect more or less specialization in the future than we have now? Explain.

115. "The steam engine theory of the efficiency of labor maintains, or perhaps implies rather than maintains, that the vigor of the laborer is in proportion to what he consumes."—TAUSSIG, *Principles of Economics*, vol. 1, p. 92.

a. Evaluate this theory.

b. So far as it is true, what bearing has it on the minimum-wage proposal? Explain.

116. In 1870 we had about 500 high schools in the

United States; in 1880 nearly 1000; in 1890, 2400; and in 1921, 13,951. What should you expect to be the result of increased attendance at high school upon the economic welfare of the nation? Explain.

117. Is there a close relationship between the honesty of a people and their economic welfare? Discuss.

118. Discuss the effect of thrift upon economic welfare; the effect of sobriety.

119. How does an increase in economic welfare affect the volume of population? Explain.

120. Does compulsory industrial insurance tend to affect the efficiency of labor? Explain.

121. "A display of wealth by the employer's wife may reasonably be expected to decrease the efficiency of the workmen."

a. Does this seem reasonable? Discuss.

b. Is this statement at all indicative of a general condition that tends to impair the efficiency of 'wage-workers'? Of other employees?

## IX.

### PRODUCTION: CAPITAL.

122. Does labor ever produce without the aid of tools? Give illustrations.

123. "The capitalistic, or tool, method is a roundabout method."

a. Suggest a direct method of catching fish.

b. Suggest a roundabout method.

c. Why is the roundabout method more efficient?

124. "A tool involves two costs—labor cost and the cost of waiting." Illustrate.

125. How is saving, or waiting, involved in the building of a house? In buying and using a house?

126. "Interest is paid because capital is scarce." Why is capital scarce?

127. "His strength is his capital." Is *capital* here used in accordance with the economic definition of capital?



128. Give examples of fixed capital; of circulating capital; of specialized capital; of free capital.

129. There are two farm communities, one of which saves, postpones consumption, and devotes energy and products to the production of capital goods, while the other uses productive energy to provide mainly consumption goods.

a. Which of these two will become the stronger?

b. If a similar difference in economic policy prevails in the case of the inhabitants of two nations, which nation will be the more likely to survive the other? Explain.

130. May a people devote too much labor and material to the production of capital equipment relative to the amount they devote to the production of consumption goods? Discuss.

131. Is the ratio between the amount of economic energy that we devote to producing production goods and the amount that we devote to the production of consumption goods satisfactory? Just how does it come about that these amounts are as they are?

132. "The American people are very wasteful. They spend large sums each year on tobacco, liquor, candy, ice-cream, et cetera."

a. Do we as a people have less capital than we

would have if we didn't indulge so freely in these things? Explain.

*b.* If the use of these things represents a national loss, does the loss occur when the consumer buys them or at some other time? And of just what does the loss, if any, consist?

133. Explain in what way the following contribute to the efficient performance of the capitalistic function:

- a.* Postal savings banks.
- b.* Commercial banks.
- c.* Stocks and bonds of small denominations.
- d.* An open stock market for the buying and selling of securities.

## X.

### PRODUCTION: ENTERPRISE.

134. Is the function of the enterpriser separate and distinct from that of the laborer, capitalist, and landlord? Discuss.

135. A, being without available funds, borrows \$1,000 from his uncle to start a grocery store. Who is the enterpriser? What is the economic function of the other?

136. "In plants wherein the workingmen own the business, the place of the *entrepreneur* (enterpriser) is taken by a manager elected by the workmen." What is the fault in this statement?—T.

137. What qualities does one need in order to succeed as an enterpriser? Illustrate by reference to enterprisers that you know.

138. Why do we say that every stockholder of a corporation is an element in the corporate enterpriser, while a bondholder, who also has capital in the concern, is not?—T.

139. If you were a grocery clerk receiving a salary of \$1,200 per year and an assured income of \$250 from \$5,000 which you possess, should you consent to put your money (\$5,000) into the business and become a partner if you felt reasonably certain of having only about \$1,450 as your yearly share of the returns from the store? On the basis of your answer formulate general principles in regard to the economic function and the economic reward of the enterpriser. Is it possible that other than economic motives might influence your decision in this case? Explain.

140. Not many years ago Mr. W., after some months of painstaking negotiation, induced a number of persons owning certain lands on the Copper Range to join with him in organizing a corporation to build a railroad, open mines, etc.,—Mr. W. putting in some land of his own. For his fee, Mr. W. was to receive a certain number of shares in the stock of the company. Distinguish with explanations the economic rôles played by Mr. W. in this matter.—T.

## XI.

### PRODUCTION: PRODUCTIVE EFFICIENCY.

#### A. CO-OPERATION—SPECIALIZATION.

141. "Specialization is now carried to a far greater degree than it was one hundred, or even fifty, years ago."

a. What inventions have been most responsible for this increase in specialization?

b. What advantages have accrued? What disadvantages? Discuss. Do the advantages outweigh the disadvantages? Discuss.

c. Do you expect that specialization will be carried still further? Discuss.

142. "It is upon the seacoast, and along the banks of navigable rivers, that industry of every kind naturally begins to subdivide and improve itself."—ADAM SMITH, *The Wealth of Nations*, Bk. 1, ch. 3 (1776). Account for this fact.

143. Should you expect the aeroplane and the wireless telegraph and telephone to have any effect upon the extent of specialization? Discuss.

144. "The adjoining states of New South Wales and Victoria, containing more than 60 per cent. of the total population of the Commonwealth of Australia, constructed their railroads with gauges of four feet eight and one-half inches and five feet three inches respectively, while the three feet six inch gauge prevails, though it is not universal, in Queensland, South Australia and Western Australia. Travelers by rail between Brisbane, on the eastern coast of Queensland, and Perth, in western Australia, must change six times during the journey of 3,471 miles by reason of the breaks of gauge."—*Commerce Monthly*, Oct., 1921, p. 15. Discuss the effect of this condition upon specialization in Australia.

145. Should you expect that there is greater exchange of products between the various localities in Europe or in the United States? Why? Is a large volume of such trading advantageous as compared with a smaller volume? Discuss.

146. "One should not depend upon others for that which is necessary to his very existence." Do you agree? Mention some worker who depends upon others for everything that he consumes. Is he wise or foolish in doing this?

147. "Only foreign trade can enrich a nation. Trade between sections of the country cannot add to national wealth."

a. Show that your state is increasing its wealth by trading with other sections of the country.

b. Is there any real difference as to the economic gain from internal trade and that from foreign trade?—(T.)

148. "The explanation of the fact that foreign commerce has played such a small part in the business of the American people (normally about one per cent) is no doubt that our own country has offered a market so big that it was unnecessary, in most cases, to seek an outlet for goods elsewhere."—*The Annalist*, Jan. 17, 1916, p. 85. This explanation is, at best, insufficient; give something better.

149. "It is a shame that we must depend upon foreign co-operation for any good. We should produce what we want or go without."

a. Do you consider it discreditable to us to rely upon the foreigner for certain products? Explain.

b. Some are disposed to see in world-wide co-operation a force making for the spiritual unity of all peoples. Give reasons for this view.

150. Suppose our foreign market showed a permanent new shrinkage of 200 millions of dollars per annum, would this mean that our yearly income would be 200 millions smaller? State the loss in general terms.—(T.)

151. From the *Congressional Record* for May 17, 1909:

"Mr. Aldrich: Assuming that the prices fixed by the reports is the correct one, if it costs ten cents to produce a razor in Germany and twenty cents in the United States, it will require one hundred per cent duty to equalize the conditions in the two countries. . . . And, so far as I am concerned, I shall have no hesitancy in voting for a duty which will equalize the conditions. . . . I would vote for three hundred per cent as cheerfully as I would for fifty." To what sort of an economic system would such notions, if logically carried out, inevitably lead?—T.

152. "The farmer should sell his produce direct to the consumer and thus eliminate the parasitic middleman."

a. Point out the advantages to the farmer of selling to the middleman.

b. If farmers gain by selling to middlemen, are the middlemen parasitic?

## B. LARGE SCALE PRODUCTION.

153. Make a detailed list of the economies that would result from a combination of three grocery stores into one store.

154. If you were to manufacture men's collars,



what advantages should you expect to derive from large scale, rather than small scale, production?

155. "Particular cases of extensive advertising prove to be of no cost to anyone, due to the economies of large scale production." Develop an argument, using illustrations, to support this statement.

156. Are principles of large scale production applicable to portrait painting? To photography? To tailoring? To the making of kitchen knives?

157. "It has been learned by the experience of business men that when the individual plant passes beyond a certain size, it ceases to gain in efficiency." DURAND, *The Trust Problem*, p. 69. Why should you expect this to be true?

158. List the disadvantages of large scale production from the standpoint of the consumer; from the standpoint of the workers; from the standpoint of society generally.

### C. COMBINATION OF INDUSTRIAL FACTORS.

159. "The efficient business man pays close attention to overhead expenses." Explain the meaning of this statement.

160. "We can pay only \$1.20 for an eight-hour day, but we will pay thirty cents additional for a nine-hour day." Illustrate concretely how a manufacturer is able to pay twice as much per hour for the ninth hour as for the eight hours.

161. The principle involved in the above problem can be used to explain the use of rebates and other forms of discrimination by the railroads in an effort to increase traffic. Explain.

162. From data in the table in section VII, arrange a table for combinations 9-14, including columns I-IV as in the table and on the basis of a cost of \$2 per A and \$5 per B, construct columns as follows:

V, average cost per unit of output; VI, cost per unit of added output; VII, total receipts if sold at fifty cents; VIII, added receipts if sold at fifty cents; IX, profit; X, total receipts if sold at \$.4135; XI, added receipts if sold at \$.4135. From data in this constructed table, answer the following questions:

a. Which combination gives the least cost per unit?

b. For the combinations given, the plant is in the state of <sup>increasing</sup><sub>diminishing</sub> returns; from 9 to 11 the costs per unit <sup>increase</sup><sub>decrease</sub>, beyond 11 they <sup>increase</sup><sub>decrease</sub>. Make proper erasure.

c. If the product were selling at fifty cents per unit, which combination would you use? What would be your average cost? If A's can be increased, will it be more profitable to increase A's with B's so as to maintain combinations 11, or to increase B's alone?

d. With the costs for A and B as given, what price will come to prevail under free competition?

e. Show that the per cent of profit received is no indication as to whether the plant is in the stage of diminishing returns or in some other stage.

163. Which is relatively the more expensive, the coal or the furnace used in heating a house? Should one plan to buy a furnace that will normally be worked in a combination near the beginning of diminishing returns or near the point of maximum returns? Why is the word *normally* used?

164. "When I build my house I shall put in two furnaces, a large one for cold weather, and a small one for mild weather."

a. Argue that this might be a wise plan if one lived where the winters are long.

b. Can you think of any condition in industry that is analogous to this case?

165. Are industrial plants likely to be in the stage

of diminishing returns, or increasing returns, during boom times? During periods of depression?—(T.)

166. Show that the problem of the combination of factors is involved in determining the height of office buildings.—(C.)

## XII.

### PRODUCTION: FORMS OF ORGANIZATION.

167. If you were planning (1) to write a book, (2) to practice law, (3) to open a bookstore, or, (4) to manufacture threshing machines, what advantages, or disadvantages, would come (*a*) from forming a partnership; (*b*) from organizing a corporation?

168. "Since all the profits of a corporation go to the stockholders, it is unfair that debts beyond corporate value should fall upon creditors; I object, therefore, to the limited liability of the corporation." Should you favor legislation making stockholders liable for all debts contracted by the corporation? Discuss fully.

169. "I weigh my words, when I say that in my judgment the limited liability corporation is the greatest single discovery of modern times, whether you judge it by its social, by its ethical, by its industrial, or in the long run,—after we understand it and know how to use it,—by its political effects."—PRESIDENT BUTLER, quoted in *Proceedings of The*

*National Tax Association*, 1912, p. 187. Suggest reasons for this view of the corporation.

170. Are the economic advantages of corporate organization enhanced by the fact that shares of stock are issued in small denominations, usually \$100, and always have a ready market on the stock exchange? Explain.

171. "The inflation of the capitalization of a corporation is called stock watering."

a. Why should stockholders wish to increase the nominal capital of the corporation?

b. How may the public suffer from stock watering in the case of public utility corporations? Illustrate.

172. "This corporation, engaged in the manufacture of brick, is greatly over-capitalized; consequently the consumers have to pay an unfair price for bricks." Is this conclusion sound? Discuss.

173. "4,508 manufacturing corporations with invested capital of \$100,000 and over reported to the United States Government in 1917 capital stock of \$1,619,045,004 and invested capital, as that term is defined under the 1917 excess profits tax law, of \$2,947,535,517."—FRIDAY, *Profits, Wages, and*

*Prices*, p. 63. What is the per cent of invested capital to capital stock? What conclusion may we draw from these figures relative to stock watering in manufacturing corporations?

174. "To sell out (dispose of stock) when the affairs of a corporation are going badly, to buy in when they are going well, is the height of business acumen."—TAUSSIG, *Principles of Economics*, vol. 1, p. 86.

- a. Is this condition at all undesirable? Explain.
- b. What general advantage results from this procedure?
- c. What institution makes such procedure possible?

175. "One result of the corporate organization of industry is that many persons who loan capital have no control over the use made of it, or over the treatment given to the employees whose employment it makes possible."

- a. Explain why this is true.
- b. Discuss the advantages and the disadvantages of the situation.
- c. Can you suggest any remedies tending to correct the disadvantages? Would the sale of the stock of "bad" corporations by righteous owners be a corrective measure? Discuss fully.

176. Why have industrial conditions since, rather than before, the industrial revolution, stimulated the growth of corporations?



### XIII.

## SOME SPECIAL CASES OF PRODUCTION.

### A. SPECULATION.

#### (1) *Produce Speculation.*

177. Is the risk of price fluctuation greater or less than it was 100 years ago?

178. "Every man who buys a good to sell again is a speculator." Is this true?

179. Is it economical to society to have a separate speculating class?

180. "Speculation is the taking of necessary risks; gambling is the taking of unnecessary risks." Illustrate the truth of both parts of this statement.—T.

181. A miller buys 10,000 bushels of wheat in October at \$1 per bushel and expects to sell the flour in December at the price then prevailing. If the price of wheat should rise and cause a rise in the price of flour, he will gain from his purchase of wheat, but if the price should fall he will lose. Such gain or

loss has no relation to his ability as a miller. He does not wish to bear the risk of such a loss.

a. Who will bear this risk for him? How will this other person be recompensed for doing this? By just what process will this second person assume the risk? Is it socially worth while to have a special class of persons who will assume these risks?

b. If October wheat is \$1 and the cost of carrying wheat until December is three cents per bushel, then December wheat will be worth \$1.03 in October. If the miller sells short for December at the time he buys the wheat he is to grind, his account will stand as follows:

WHEAT FOR MILLING	
10,000 bushels at \$1.....	\$10,000
Storage, insurance, etc., two months, 3c.....	300
Total cost .....	<u>\$10,300</u>
FUTURE, OR SHORT SALE	
10,000 bushels to be delivered in December at \$1.03 .....	<u>\$10,300</u>
Total selling price of short sale.....	\$10,300

If the price is \$1 in December, how much will the miller lose on his flour due to the fact that the price of wheat is \$1 rather than \$1.03 as expected? But as he can buy wheat at \$1, and deliver 10,000 bushels at \$1.03, he will make what sum on his short sale? Do his loss and gain balance? If so, how does he make any money?

c. Assume price to have risen to \$1.08 in December and compute the miller's gain or loss on each transaction?

d. Why use the term "selling short"?—(T.)

182. Argue that wheat speculation, as illustrated here, tends to lower the price of flour.

183. Consult the daily paper and find the price of wheat to-day. What is the price of futures?

184. A manufacturer of cotton goods buys raw material in February. He expects to have the goods ready for market in May. How can he escape the risk of losing through a decrease in the price of cotton if he is unable to sell the goods in advance? Illustrate.

185. If the ripening wheat crop should be seriously damaged suddenly, what would wheat speculators do? Would this activity be to the advantage or disadvantage of consumers of flour? Discuss.

186. Taylor says that the chief functions of speculation in produce are: (1) to establish proper price; (2) to secure the bearing of the risk burden of ownership in the easiest and cheapest way? Show how each of these ends is secured.

(2) *Speculative Trading in Stocks and Bonds.*

187. "The buying and selling of stocks and bonds encourages the investment of capital." Show that this is true.

188. "The function of enterpriser can be efficiently performed only in case capital is available."

a. Support this statement.

b. Does the stock market help to make capital available? Explain.

189. "The efficiency of the corporation as a factor in production is greatly enhanced by the existence of the stock market." By a hypothetical case, show that this statement is true.

190. "We have borrowed an enormous sum of capital from abroad during our history."

a. In what form have we imported this capital?

b. How have the loans been negotiated?

c. How have the debts been paid when payment was desired?

191. Note the prices of the various securities listed in the daily papers. Why are there such differences in the prices of securities?

192. "The New York stock exchange is at once the greatest institution in the world for facilitating investment and the greatest of gambling hells."—

TAUSSIG, *Principles of Economics*, vol. 1, p. 165.  
Show how the stock market performs this double rôle.

## B. INSURANCE.

193. "Insurance eliminates risks." Is this true? Do fire insurance companies prevent fire? Do they prevent fire losses to individuals? Just what is their function?

194. "No, that building that just burned was not insured. I have not insured a building for seven years."—A successful farmer. Why doesn't he insure his buildings? Why do you suppose this man stopped insuring them at the time he did rather than earlier?

## XIV.

### PRODUCTION AND DISTRIBUTION.

195. What does the word *distribution* mean as it is commonly used by business men? What does the economist mean by distribution?

196. Through what doors are the products of our industry distributed, that is, what are the shares in distribution? Are the two processes, production and distribution, separate and distinct? Do not forget to explain.

197. "Distribution is determined by the prices that are set upon the production factors." Explain.

198. Is the subject of distribution of wealth more important to-day than it was at the time of the industrial revolution? If so, explain why.

199. "One's wages-of-management is the amount that he could command as salary if he should choose to work for another rather than for himself." Is this sound? If so, are wages-of-management merely wages?

200. "Opposed to the fact that fully nine-tenths of the products of current industry are not in consumable form is the equally certain fact that practically the entire money income is spent for goods that are ready for consumption."—SEAGER, p. 180.

a. What part of the productive effort that is spent in producing bread is spent upon the day that the bread is purchased for consumption? About what is the remotest date at which any of that effort was performed?

b. Answer similar questions in regard to coffee.

c. Suggest an article where production is completed in one day.

d. If producers are paid largely in products the production of which has extended over a long period of time, do they get an equivalent of what they produce inasmuch as production methods are constantly becoming more efficient?

201. What do you understand by the expression the *yearly income* of the nation? The *yearly net income* of the nation? The *annual national dividend*? The *annual national product*?

## XV.

### DISTRIBUTION: RENT.

#### A. THE NATURE AND ORIGIN OF LAND RENT.

202. "Rent is the price paid for the use of land."

*a.* What determines the rent that tenants pay for agricultural land?

*b.* What determines the rent that is paid for city lots for business purposes? For residence sites?

203. "Rent on any parcel of land is due to the fact that the market value of the product from that land rises above the cost of producing it, including necessary profit."

*a.* Argue in support of this statement.

*b.* Account for the fact that the market value of the product from a parcel of land may exceed the cost of production.

204. "Price rose from thirty cents to forty cents per bushel, thus making it possible to farm poorer land, and, as a result of farming the poorer land, rent emerged on the best, or thirty-cent land." Criticise this statement.—(T.)



205. "Rent is measured by the method of differences, starting from the no-rent land margin and proceeding from grade to grade until the best and most favorably situated lot for the purpose that is economically most important is reached."—SEAGER, p. 241.

a. Is it necessary to have no-rent land in order to have rent?

b. "This method of measuring rent is based on the assumption that land varies in productivity by infinitesimal differences." Do you agree? Discuss.

206. Distinguish between the intensive margin of cultivation and the extensive margin. Is there any land at the extensive margin in your state? Are there any products produced at the intensive margin in your state? Show that the price of potatoes tends to equal the cost of producing potatoes at the extensive margin of cultivation; at the intensive margin.

207. What influence do you expect that the refrigerator car has had upon agricultural rent? The automobile? The telephone?

208. If a subway should be constructed in a large city, what effect should you expect this to have upon the rent of land (1) in the downtown business dis-

trict, (2) in the residence district adjacent to the downtown business district, (3) in the outlying business district, (4) in the outlying residence district?

209. "Walk upstairs and save five dollars on a suit of clothes. Our prices are less because our rent is less." Are their prices less because their rent is less? Is their rent less because their prices must be less than their ground floor competitors? Discuss.

210. "Trade with us. Since we own our own store, we do not have to pay any rent, consequently our prices are lower." Make a similar statement in which a merchant would claim that his prices were low because he did not have to pay wages. Discuss the point at issue.

## B. THE RELATION OF RENT AND THE SELLING PRICE OF LAND.

211. *a.* If a tract of land is bearing \$400 rent and if it is expected that this figure will not change, and men are satisfied with five per cent income from land, what price will be set on this tract? What price if the rate of capitalization is three per cent?

*b.* If this land should be expected to bear \$500 rent five years from now, and \$600 ten years from now, would this affect the market price of the land? In terms of interest earnings, what effect would such

an expected increase in rent have upon the income from land?

212. If a house and lot rents for \$40 per month how could you determine the approximate market value of the lot?

213. A certain piece of land yields twenty bushels of wheat per acre, the expenditure per acre being \$10. With land on the margin of cultivation yielding ten bushels for the same expenditure, and with the rate of capitalization five per cent, what value would an acre of the twenty-bushel land tend to have when there was a tax on it equal to eighty per cent of the rent? Put down in your answer each step in the solution, and explain fully.—T.

214. "The price of land has risen recently, so the landowners are demanding more rent." Is this reasonable? Explain.

### C. THE SOCIAL ASPECT OF RENT.

215. "As, with increasing population, there falls out, per capita, a smaller product in society to be divided, there goes to the landlords a larger and larger proportion of this more and more tragically inadequate total. The landlords gain by the general ill-fortune. Those classes disinherited of land are doomed to a double and compounded pressure of ad-

versity. The land famine smites them with both edges of its sword."—DAVENPORT, *Economics of Enterprise*, p. 180. Illustrate this contention by referring to the table of combining proportions in section VII. What are the two edges of the sword?

216. Argue that under government ownership of land justice would require that rent be charged for residence sites so soon as two persons came to desire the same site. Is it probable that there could be a community in which two or more persons would not desire the same site?

217. Is it wise to have private ownership of land? If so, can we safely take all the rent from the owners by imposing taxes equal to the rent? Can we safely take part of it? Discuss fully.

218. Is there a particular reason why the land rent due to public improvement should be taxed into the public treasury? Explain.

219. If the state owned all the land, could individuals secure land more easily than they can today? Explain.

220. Suppose that I own a farm in Ohio and rent it for cash rent of \$500 per year. Do I earn the

\$500? Does the tenant earn it? Who does earn it? Why?—P.

221. Do you expect that total land rent will increase or decrease in the United States? Explain. May the land rent in certain sections be confidently expected to increase? Discuss.

## XVI.

### DISTRIBUTION: WAGES.

#### A. THE DETERMINATION OF WAGES.

222. "An industrial society in which certain persons are paid \$500 per day while thousands of their brothers are paid only \$2 per day is indefensible." Do you agree? Discuss fully.

223. Assume a community in which the raising of corn is the main industry.

a. What will determine the wages in corn that rival farmers will pay? Will this increase or decrease as population increases? Will all of the farmers, or only certain farmers, be forced to pay all that they could pay? Explain. See table in section VII.

b. How would wages be affected: (1) if the methods of raising corn should be improved; (2) if improved transportation facilities should make more corn land available; (3) if gold should be discovered in adjacent territory?

224. Why are wages higher in Montana than in Georgia?

225. "Women are paid less than men for similar work." Are they? If so, why?

226. "The economists teach that free bargaining between capital and labor will give the laborer just or reasonable wages." Show that the economists do not teach that free bargaining, but rather that keen competition, will give just wages.—(T.)

227. *a.* Under what conditions will an increase in the wage rate by legislation reduce the number of persons that are employed?

*b.* "If employers do not bid against each other keenly for labor, the wages that prevail might be raised by legislation without causing unemployment." Is this sound? Do employers bid against each other as keenly for labor as for raw materials? Discuss.

*c.* "If low paid workers are given an increase in wages, they may be worth more,—they themselves may become more efficient, and, also, the employer may become more efficient." Is this reasonable? Discuss.

228. "The employer's interest is in money wages; the laborer's interest is in real wages." Discuss.

229. In defending the organization of trusts, and the consequent restraint of competition, an argument like this is sometimes used: "Competition in the sale of goods so reduces prices that it is impos-

sible to pay fair wages to the workman." Defend the contention that the competition which tends to reduce the prices also tends to raise wages.—T.

230. Just how does it come about that, all other things being equal, the occupation that is agreeable pays a lower wage than the occupation that is disagreeable? Illustrate.

231. "If you are an American wage-worker using modern machinery in an up-to-date plant, you produce each day goods that sell at retail for at least \$10. But you don't get the \$10; *you* get, on an average, about \$2; somebody else gets the \$8."—CHAS. H. KERR, in a socialist pamphlet. Show that, if the wage-worker in question did get the whole \$10, he would be cheating some other wage-worker as well as some non-wage workers.—T.

232. "Wages are apt to be fixed much closer to the minimum which the laborer will take than the maximum which the employer will pay; for the latter has much more skill and strength in bargaining." Construct a demand and supply schedule according to which employers will pay \$5 per day for 100,000 days' labor and employees will take \$1.50 per day for that amount of labor. Show that it is possible that the wage may be set at \$5. Is it probable that it will be nearer \$5 or \$1.50?—(T.)



233. "The capitalists own the tools of production and can thus force the workman to take any wage, since labor cannot work without tools."

a. Do you agree? Discuss.

b. Turn the quotation about so that the laborers will appear able to dictate the wage.—(T.)

234. Why do most surgeons receive incomes that are greatly in excess of the incomes that are received by most physicians?

235. "Men love to excel at difficult and important tasks. The instinct of workmanship and social prestige will hold them to the socially important work. Differences in financial remuneration are not necessary." Do you agree? If not, do you believe that there is any merit in this contention? Discuss fully.

236. If you were to go into a community as a dentist, what would determine the prices that you would set upon your services? Would you be at all influenced by the fact that there were, or were not, other dentists in this community? Explain.

237. "Competition is not effective in determining physician's fees, else the fees would be lowered, as competition is very keen."

a. Account for the fact, assuming it to be true, that physicians' fees are not lowered by competition.

*b.* Argue that large fees result in competition which reduces income, although it does not reduce particular fees.

*c.* May large fees result in our having more physicians than we really need? Discuss.

238. *a.* Does special educational training for a few increase the wages of these few? Why?

*b.* Would equivalent education for all lower the wages of the "few"?

*c.* Would such education for all increase general wages over what they would otherwise be? Why?

*d.* Suggest a program looking toward the equalization of wages during the next 100 years.

## B. WAGES AND THE STANDARD OF LIVING.

239. "There is a vital connection between the population question and the wages question." Discuss.

240. "No remedies for low wages have the smallest chance of being efficacious, which do not operate on and through the minds and habits of the people."—MILL. Argue for the truth of this statement. (It probably needs qualification; but leave that for some other occasion.)—T.

241. "The standard of living keeps wages up."

“How so? Men must work for what they can get. Their standard of living will not enable employers to pay them more than the competitive wage.” Does the point made in the second quotation disprove the position taken in the first? Explain.

242. Are the wages of carpenters determined by their standard of living, or by the standard of living of their social group, or is their standard of living determined by their wages? Are not their wages determined by their productivity? Discuss fully.

243. Is the “long time” concept vital in the consideration of the wage and standard of living problem? Explain.

### C. EMPLOYMENT.

244. According to a principle formulated by J. B. Say (Say’s Law), the goods and services which are offered on the market constitute the demand for other goods and services. Show that the farmer’s demand is conditioned by his supply; the manufacturer’s; the musician’s.

245. “The snowfall was a great blessing to labor, for the city had to employ a large number of men to remove the snow from the streets.”—A news item.

a. Did this benefit certain laborers?

b. Was it a benefit to laborers generally?

246. "A store burned in our town and relieved the unemployment situation. It was a blessing to the laboring man." Illustrate concretely how certain laborers may be expected to have lost because of this fire.

247. Discuss the short time effect upon employment of the introduction of machinery that permanently reduces by one-half the number of laborers needed in a particular line of work; the long time effect.

248. "The college professor's wife who makes her own dress is unfair to those persons who must work for a living." Criticise.

249. Minnesota labor unions petitioned the 1915 legislature to defeat the county option liquor bill on the ground that the closing of the saloons and breweries would throw a great number of men out of work. Discuss the effect that national prohibition has had on employment.

250. "Prison labor should be devoted to road building and thus not brought into competition with free and honest labor." Argue that it is to the advantage of free labor to have prison labor produce as many goods as possible.—(T.)

## XVII.

### DISTRIBUTION: INTEREST

#### A. THE NATURE OF INTEREST.

251. "Saving, or abstinence, is necessary to the existence of capital." Is this true? Could Robinson Crusoe have a fish-net without saving or abstinence? —(T.)

252. The interest problem is: Why does capital yield an excess over replacement? That is, why does a tool give a product that is more valuable than the tool? The problem is answered by answering the question: Why do we not have so many tools that the value of the product declines to the value of the tool?

a. Answer the last question.

b. Show that this answer is an answer to the second question, and that the second is only a re-statement of the first.

253. "The interest that capitalists receive is in no sense subtracted from the reward that goes to labor." Explain and defend this statement.

254. *a.* Assume a communistic society and show that justice would require that the persons requesting wine at the common store house in exchange for certain claim checks should be given a smaller quantity than is given in grape juice to persons presenting similar claim checks.

*b.* Show that in a socialistic society certain products will require equipment that will involve more waiting than is required for other products. Show that the persons using the products involving waiting should, in justice, pay more than the labor costs involved.—(T.)

255. Interest is either explicit or implicit. Explicit interest is manifested in loan contracts. Implicit interest is manifested in the prices paid for goods or for the use of goods. For example:

*a.* A produced goods sells for a price higher than its costs in other goods and labor.

*b.* A produced good hires, or rents, for a daily or monthly price that is more than sufficient to return during its life time, the market value of the good.

*c.* A non-producible income-bearing good sells for a price lower than the sum of the expected incomes.

Illustrate each of these three cases of implicit interest.—(T.)

256. *a.* Under what conditions would you pay interest for consumption purposes? For production purposes?

b. Why is not the amount available for borrowers so abundant that they need not pay for its use?

c. What do lenders sacrifice in loaning? Under what conditions would you loan gratuitously? At the normal rate of interest? Only at an excessive rate, say twenty-five per cent?

## B. THE RATE OF INTEREST.

257. How much more efficient are the present highly capitalistic methods of grinding flour in Minneapolis than were the Indian methods that used to prevail in that locality? Estimate roughly the interest rate that we could afford to pay for the use of milling machinery rather than go without it? What is paid? How do you account for this difference?

258. What is meant by saying that the rate of interest is just sufficient to induce the marginal saver to save? If this is true, then what would tend to be the effect upon the volume of saving if the rate of interest should rise, due to an increase in the demand for capital? If the rate of interest should fall, due to a falling off in the demand for capital? Is it necessary for the analysis involved in the second and third of these questions to assume that all other conditions remain as before, for example, that the amount of income that people receive remains the same, and that the prospects for a continuance of

these incomes does not change? As a matter of fact, are these other conditions the same under varying conditions of demand for capital? If not, is it necessary to prove the relation between the rate of interest and the amount of saving by reasoning deductively rather than inductively? Discuss fully.

259. "It is foolish to insist that interest must be paid because of the sacrifice of saving when many rich men cannot help saving. It would be, not only much more burdensome, but impossible for them to consume their incomes." Discuss this statement. —(T.)

260. "The pure interest rate tends to be the same in all lines of industry."

a. What is meant by the "pure interest rate"?

b. Argue in support of the statement.

c. How do you account for the differences in the rates of income earned in different industries?

261. The rate paid for loans has generally been much higher in the western part of the United States than it has been in the eastern part. How do you account for this?

262. If the wages of unskilled labor should be \$3.00 per day and the rate of pure interest 5 per cent for a long period of time, what changes would tend



to take place if wages should rise to \$4.00 per day? If they should fall to \$1.50? Why?

263. High wages tend to cause an increase in the interest rate. Explain.

264. "The rate of interest tends to represent at once the productivity of capital and the disutility of supplying capital." Assuming the statement to be true, show by just what process this is brought about.

265. If the cost of building a mile of macadam road is \$6,500, a mile of concrete road \$12,000, and a mile of brick road \$18,000; and if the annual cost per mile of keeping the roads in good repair is \$600 for the macadam road, \$300 for the concrete, and \$50 for the brick, which road will be the most economical when the current rate of interest is two per cent? When it is four per cent? Five per cent? Six per cent? Ten per cent?—(P.)

## XVIII.

### DISTRIBUTION: PROFITS.

266. "Competitive profits (or losses) arise in consequence of deviations of market from normal prices."—SEAGER, p. 198. Give several illustrations.

267. Give several reasons why the profits of enterprisers are higher during a period of rising prices than during a period of falling prices. Illustrate from our experience during and following the Great War.

268. *a.* Give an illustration, preferably from your own experience, of an enterpriser's receiving profits in excess of the amount necessary to induce him to undertake the enterprise.

*b.* Of an enterpriser's receiving only sufficient profits to induce him to undertake the enterprise.

269. Are competitive profits in the flour industry less because of trading in wheat futures? Because of insurance? Explain.

270. We often hear people complain of what they consider the unreasonable profits of druggists or

other merchants, saying that these dealers clear from fifty to a hundred per cent on a large part of their sales, while they have no right to more than eight or ten per cent. Does the fact that fifty or a hundred per cent are cleared on sales prove that a merchant gets more than eight or ten per cent real profit?

271. "Under free competition the consumer gets the benefit of all improvement in method, yet producers are always anxious to take up new methods." Explain and illustrate each part of this statement.—(T.)

272. "Profits from a corporate enterprise may be concealed by watering the stock." Explain.

273. *a.* Would there be risks in production under government ownership of industry? If so, would this be entered as a cost in the books of the state?

*b.* Would profits exist in such a state?

274. Suppose that by the draining of swamp lands, one-fifth should be added to the tillable soil of the country. What effect would it tend to have on wages? On profits? On interest? On agricultural rent? Explain in each case.—T.

## **XIX.**

### **MONEY.**

#### **A. THE NATURE OF MONEY.**

275. What is money? Why have money? Is an individual better off economically when he exchanges goods for money?

276. "A nation is so much poorer by every dollar it sends out, just as an individual is so much poorer by every dollar he spends." Criticise both clauses.—(T.)

277. "Foreign trade can add to the national wealth only when it brings in a money balance."

a. What is the principal thing to be gained by maintaining trade relations with the outside world?

b. When would it be of advantage to have our foreign trade bring in a money balance?

c. What idea does the person quoted appear to have as to the relative values of economic goods?—(T.)

278. "I don't see that society as a whole loses any-

thing by the giving of a fireworks exhibition costing \$1,000. Of course, the people who pay for the fireworks are just so much out. But then the \$1,000 goes to the other people who furnish the fireworks; so that society as a whole comes out even." Criticise.—T.

279. "The only justification I can see for the luxurious expenditure of the idle rich is that money is put in circulation—other folks have a chance to get hold of the idle hoard."—A university professor. Discuss the issue raised.

280. "The Russian Government is expending \$12,000,000 a year on new aeroplanes, and although these may never be needed in war, the money will not be wholly wasted, for all the machinery is to be designed and constructed in Russia."—Editorial, *The Independent*, April 13, 1914. Discuss the economic principle involved.

281. "That proportion of the money received from the bonds (sold by European governments to finance the present war), which is spent in the home country, is not all wasted, but there is no getting back the money which is spent in the United States or other lands. For this reason, Germany is in better financial condition to-day than any of the other belligerents. Her dealing has all been among her own peo-

ple.”—ROGER W. BABSON, in *Daily News*, August 1, 1915.

a. Did the allies follow a sound policy in buying goods and ammunition in the United States? Did Babson imply that they were wise or foolish in doing so?

b. Need the allies get back the money which they spent in the United States in order not to lose?

c. State in other than monetary terms the economic cost of war.

282. “Money spent at home for goods is used over and over again and benefits many, but money spent in the Chicago Mail Order Houses benefits none of us but the buyer.”

a. Is \$75 spent for china in Minneapolis used “over and over again” in Minneapolis? Explain.

b. May it be economically advisable for the inhabitants of Minneapolis to buy in Chicago? Explain.

c. Might such a policy affect the population of Minneapolis numerically? If a reduction in population should ensue, what persons would lose by the change?

283. A resident of Mankato, Minnesota, plans to spend \$300 for a supply of clothing for his family.

a. Estimate the monetary gain to Mankato from

having the money spent there. Specify in detail the probable division of the sum gained among the various persons in Mankato who may be expected to share in the gain.

b. Make similar estimates, supposing the money to be spent in Minneapolis.

c. Compare the advisability of this individual's trading in the one place or the other, (1) if he is a retired business man receiving his income from eastern corporations; or (2) if he is a practising physician who owns several residences in Mankato.

284. The functions of serving as a *medium of exchange* and as a *measure of value* "are not two different functions, but merely two different aspects of the same thing."—ELY, *Outlines of Economics*, p. 252. Do you agree? Explain.

## B. MONETARY SYSTEM.

285. What is our standard money? Who determines what our standard money shall be? Has it always been as it is now?

286. Why is gold well suited to serve as money? In what way, if any, are each of the following commodities inferior to gold as a monetary medium: wheat, cotton, diamonds, iron, copper, silver?

287. "The coinage of money has almost univer-

sally been regarded as a prerogative of the sovereign." Why?

288. "Free (unrestricted) coinage and unrestricted melting keep 23.22 grains of pure gold worth \$1." Explain. Are both free coinage and free melting necessary to maintain the parity of the standard money?

289. *a.* If an ounce of gold is worth thirty-two times as much as an ounce of silver, and if the government should decree that both gold and silver should be standard money, and that there should be 371.25 grains of silver in a silver dollar and 23.22 grains of gold in a gold dollar (bimetallism at the ratio of 16:1), in what money would debts be paid? Why? Which money would be overrated? Which money would become the standard? What would become of the other money?

*b.* At what ratio could both silver and gold be maintained as standard money under the above conditions? Could we be certain that this ratio would be the proper one next year?

290. What is Gresham's Law? Why does not our silver dollar, worth about fifty cents, replace gold as standard money?

291. "Token money should be light in weight."

*a.* What is token money?



b. What is meant by its being light in weight? Why is this necessary?

c. The Congress of the United States passed a law in 1853 providing that the amount of silver in the fractional silver coins should be reduced. Why do you suppose Congress made this provision?

292. "Gold is a commodity like all other economic goods, and its exchange value is determined according to the principle that controls the exchange value of other goods. Its value rises when the gold supply is relatively small, and vice versa."

a. When gold is discovered, what evidence do we have of change in the value of gold in the vicinity of the "strike"?

b. How can we ascertain whether gold is rising or falling in value?

c. If gold falls in value, what effect does this have on creditors? On debtors? On receivers of fixed incomes? On receivers of incomes which change less rapidly than other incomes?

293. "A multiple standard would prevent the injury that inevitably results from a money standard." Explain what is meant by a multiple standard, and argue for the truth of this statement.

294. "It has been estimated that the use of greenbacks increased the expense of the Civil War by

nearly \$600,000,000.”—ELY, *Outlines of Economics*, p. 278. Account for this increase in the expense of the war due to the use of greenbacks.

295. “A Soviet journal published in Moscow in a recent review of the monetary situation in Russia states that at the beginning of the war the amount of paper roubles outstanding was 1,630,000,000; by the end of 1917 it had reached 27,300,000,000, at the end of 1919, 225,000,000,000 and at the end of 1920, 1,168,000,000,000. The statement goes on to say that at the date of writing, October, 1921, prices in Moscow were 48,600 times higher than in 1914, and the editor argued that, on this basis, the present monetary circulation was insufficient. He calculated the country’s present needs for currency at 48,500,000,000,000 roubles.”—*Bulletin of National City Bank*, January, 1922, p. 11. Account for this great increase in the amount of money. If a nation begins to issue irredeemable paper money, is there danger of a great over issue? Discuss.

## XX.

### CREDIT AND BANKING.

#### A. BANK CREDIT.

296. "Credit economizes the use of money." Explain what is meant.

297. "With \$100 cash a bank can furnish \$800 of exchange media."

a. Just how can a bank do this?

b. Why is it safe to do this?

c. Under what conditions could it loan a still larger amount on a cash reserve of \$100?

d. Should the amount which may be loaned in this way be specified by law?

e. If a bank holds a large quantity of high-grade bonds, may it more safely keep a small reserve than if it has, instead, invested a similar amount in farm mortgages? Explain.

298. What is a check? Why do most persons prefer to use checks in exchange transactions? Is it economically advisable that checks be used?

299. If a resident of Davenport, Iowa, sends a

check for \$20 to a dealer in St. Paul, the dealer will write his name across the back of the check and cash it at his bank.

*a.* Why will he write his name upon the check? How will the St. Paul bank reimburse itself for the \$20 given to the dealer?

*b.* Suggest the probable route that the check would take in returning to the person in Davenport who drew it.

300. A. B., of St. Louis, buys \$1,275 worth of flour from X. Y., of Minneapolis.

*a.* Suppose settlement to be effected with a wheat bill of exchange (also called a sight draft), and write out the substance of the bill which would be used.

*b.* Suppose settlement to be made with a check, and write out a facsimile (in substance).

*c.* Suppose settlement to be made with a bank draft, and write out a facsimile (in substance).

*d.* Describe the imaginary course which each of these instruments would take.—(T.)

301. Many deposits are due not to the deposit of money but to the borrowing of bank credit. Explain.

302. The per capita amount of money, of all kinds, in circulation in the United States in 1913 was about \$35, yet the deposits per capita in savings banks, July 1, 1913, were \$48.57. How can this be?—P.

303. "Commercial banking stands or falls, as to its social utility, with the merits or demerits of the business man's doings."—TAUSSIG, *Principles of Economics*, vol. 1, p. 353. Show that this is true.

#### B. BANK NOTE ISSUE.

304. A customer gives his note and opens a checking account.

a. Show that if the bank should, instead of giving him a checking account, issue him due bills upon it (bank notes), the banking principle involved would be similar to that involved in a checking transaction.

b. In what way would the bank's notes be superior to checks as media of exchange?

c. What element of danger is involved in allowing banks to issue their own notes?

d. Should we impose reserve requirements in regard to notes? Why?

305. "The issuance of bank notes is far more important in a community not accustomed to the use of checks, as rural districts, than in communities accustomed to the use of checks, as cities." Why is this true?

306. Country districts need more money during the crop-moving season than at any other time in the year.

*a.* Show just why it is that an extra amount of money is needed at that time.

*b.* Would it be advantageous if the farm communities could, through their banks, manufacture their own money? How could this be done?

*c.* If they cannot provide their own money, how can they get the needed amount?

*d.* Trace the movement of this extra money from the time it leaves the banks in the farm community until it returns to the regular channels.

307. From the time of the civil war until recently, banks could issue notes only upon United States government bonds.

*a.* Point out one advantage of such a system.

*b.* What must have been the chief disadvantage of the system?

*c.* Is there any significance in the fact that there was a financial panic in 1907, and that this note-issue provision was temporarily amended at the session of Congress next following, in 1908, making it possible to issue bank notes upon collateral other than United States bonds?

308. "If banks can issue their own notes when called for at the counter, we can always have all the circulating medium we need. When trade is taking place, securities will be abundant and can be used as security for notes, and when trade abates the notes

will be deposited in the banks, returned to the issuing banks and be canceled and retired."

*a.* Do you believe such a system of note-issue to be proper?

*b.* Would it be well to limit this function to certain banks?

*c.* What advantage might accrue from prohibiting banks paying out the notes of other banks?

*d.* In what way is our Federal Reserve Banking System analogous to the system here suggested?

309. What is the significance of the provision allowing the Federal Reserve Board to suspend the 40% reserve requirement for federal reserve notes and at the same time impose a tax upon the deficiency in the reserve?

310. Describe and illustrate the process by which (1) a commercial transaction gives rise to 30-day commercial paper; (2) this paper comes into the possession of a national bank; (3) this bank rediscounts the paper at the federal reserve bank; (4) the federal reserve bank sends federal reserve notes to the national bank in payment; (5) the commercial paper is taken up (paid) when due.

### C. THE CLEARING HOUSE.

311. October 1, 1907, the different banks of Ann

Arbor brought to the clearing claims against each of the other banks as follows:

No. 1 against	No. 2 against	No. 3 against
No. 2, \$2,213.19	No. 1, \$4,284.78	No. 1, \$4,974.66
No. 3, 1,865.09	No. 3, 2,172.45	No. 2, 1,607.79
No. 4, 2,415.96	No. 4, 3,043.18	No. 4, 1,093.24
No. 5, 512.21	No. 5, 655.87	No. 5, 625.88
<hr/> Total \$7,006.45	<hr/> Total \$10,156.28	<hr/> Total \$8,301.57

No. 4 against	No. 5 against
No. 1, \$3,078.73	No. 1, \$ 332.15
No. 2, 1,793.16	No. 2, 377.17
No. 3, 973.73	No. 3, 1,515.46
No. 5, 4,633.96	No. 4, 181.56
<hr/> Total \$10,479.58	<hr/> Total \$2,406.34

- a. Compute the balance for or against each bank.
- b. How much money was needed at the clearing house that day?
- c. How can you account for the condition shown by bank No. 5, namely, that bank No. 4 cashed so many checks drawn upon this bank, while the other banks cashed so few, and that it cashed but few for any of the other banks? From this showing, is bank No. 5 necessarily the smallest of the five banks?
- d. If there are only two banks in a town, how do they "clear"?
- e. Show concretely the saving that results from the clearing house in this town of five banks.
- f. State definitely the primary function of the clearing house.



g. Is the amount of bank clearings a fair index of the prosperity of a community? Explain.—(T.)

312. If a resident of Peoria sends a check to a dealer in Chicago, the check may or may not go through the clearing house in Peoria. Explain.

#### D. THE BANK STATEMENT.

313. A bank statement shows the marketable property of the bank under the caption, *assets*, or *resources*, and the liabilities of the bank to the stockholders, or owners, and to the depositors, or customers, under the caption, *liabilities*.

a. Why do banks issue statements?

b. The assets and liabilities are always exactly equal. How do you account for this?

c. If the assets and liabilities are always equal, how can the statement indicate the strength of the bank?

d. Are the following resources or liabilities (if liabilities, are they to the stockholders or to the depositors): capital stock, cash, due from other banks, overdrafts, circulation, undivided profits, U. S. bonds, surplus, deposits, loans and discounts?

314. If men in organizing a bank put in \$20,000 in gold, the statement will then stand: Assets,—cash, \$20,000; liabilities,—capital stock, \$20,000.

- a. How will the statement be affected if \$10,000 is spent for a site and building?
- b. If X. deposits \$200 in gold?
- c. If Y. cashes a \$50 check drawn by X.?
- d. If Z. opens an account by depositing a \$100 check written by X.?
- e. If Z., wishing to borrow, gives his note for \$300 to the bank and has this amount, less \$2.45 interest, credited to his deposit account?
- f. If the bank spends \$1,000 for bonds?
- g. If the bonds are later sold for \$1,100?
- h. If Z. pays his note at maturity?

315. "The total loans and investments of reporting member banks of the Federal Reserve Banking System declined from \$16,581,545,000 on Dec. 10, 1920, to \$14,758,750,000 on Dec. 7, 1921, while their net demand deposits declined from \$10,865,474,000 to \$10,208,340,000."—*Commerce Monthly*, Jan., 1922, p. 19. Account for the difference in the falling off in these two items.

## XXI.

### FOREIGN EXCHANGE.

316. Par of exchange on London is \$4.866. How is this figure derived?

317. Suppose that X. in New York sells A. in Liverpool a cargo of cotton for £1,000, and that B. in Liverpool sell I. in New York a quantity of steel for £1,000.

*a.* How can these bills be most easily paid?

*b.* Why would it be unwise for A. to ship £1,000 in gold to X. and for I. to ship a similar amount to B?

*c.* I. owes B. £1,000, or \$4,866.66. If it costs three cents to ship £1 to England, how much would I. be willing to pay X. for his claim on A. with which to pay B., rather than ship gold to B.?

*d.* For how much per pound would X. be willing to sell his claim rather than have the gold shipped to him at his expense?

*e.* If other persons have also sold abroad and possess claims on Englishmen, they will compete with X. to sell English credit to I. What effect will this have on the price per pound that importers must pay for

English credit with which they may discharge their obligations? How low can this normally go? Why?

f. If other persons have also bought abroad, they will compete with I. in buying X.'s claim. This will have what effect on the price that exporters can get for their bills? How high can this normally go? Why?

g. What is the high "gold point"? The low "gold point"?

318. If you are in country A and desire ten ounces of gold in a distant country B, under what conditions could you buy in A, the right to this much gold in B, for less than ten ounces of gold? Under what conditions would you have to give more than ten ounces? Under what conditions would the price be just ten ounces?

319. What is the fundamental reason for the rate of exchange between two gold standard countries ever being other than par? If the Atlantic Ocean were a narrow river, would the rate of exchange on London normally vary more, or less, from par than it does now?

320. If London credit is selling in New York for \$4.89 per £, should you expect London banks to pay more or less than face value for drafts on New York banks? To charge more or less than face value for drafts payable in New York? Explain.

321. American exporters do not sell their claims on their foreign customers directly to American importers: they sell to middlemen. Who are the middlemen? Does the middleman sell the piece of paper which he receives from the American exporter to the American importer, or does he give the American importer another piece of paper? If the latter, what does he do with the paper that he buys from the exporter?

322. If a New York exchange broker has exhausted his London balance, and is unable to buy American exporters' claims, what must he do to replenish his balance so that he can sell drafts to American importers? Then what price must he charge importers for his drafts? Explain.

323. *a.* If you are a wheat exporter and have sold a shipment for £1,000, what can you realize on your claim if exchange is \$4.84? If exchange is \$4.87?

*b.* Suppose you are an importer and have bought merchandise to the value of £1,120. What will it cost you to pay your debt if exchange is \$4.84? If exchange is \$4.87?

*c.* What principle can be deduced as to the effect that a high or a low rate of exchange tends to have on exports? On imports?—(T.)

324. Consult the daily papers and find the rate of

exchange in New York on London to-day; on Paris; on Berlin.

325. Excessive exports from America tend to cause a <sup>high</sup><sub>low</sub> rate of exchange on London; but this rate of exchange tends to <sup>increase</sup><sub>decrease</sub> exports and <sup>increase</sup><sub>decrease</sub> imports, and thus bring the rate again to normal. Make the proper erasures and write a similar statement, beginning, "Excessive imports \_\_\_\_\_."

326. Do the following tend to raise or lower the rate of exchange in New York on London? Explain.

- a. European travel by Americans?
- b. American travel by Europeans?
- c. Borrowing abroad by selling American securities?
- d. Buying of postal money orders to be sent abroad?

327. "A country that produces gold tends to export more gold than it imports." Show how the production of gold in the United States would lead to a rate of exchange that would make the sending of gold profitable.

328. "Movements of gold as a result of a high or low rate of exchange tend to be self-corrective." Explain.

329. "Fundamentally the rate of exchange between two countries depends upon what a unit of the money of one country will buy in that country as compared with what a unit of the money of the other country will buy in that other country."

*a.* Does this seem to be reasonable? As between two gold standard countries, should you expect an ounce of gold to buy approximately as much in one as in the other? Why? If so, then could the rate of exchange be determined approximately by comparing the gold content of the monetary units of the two countries?

*b.* If one or both of two countries are not on the gold standard, how will the rate of exchange be determined? Why has the rate of German exchange in New York declined as the amount of paper money in Germany has increased?

*c.* The German price level was given as 3467 on January 4, 1922, the average for the middle of 1914 being taken as 100. If our price level was 150 then, on the basis of 1914, what should you expect a mark to have been worth in New York? Explain.

*d.* "The principle stated above presupposes freedom from abnormal restrictions of trade and the absence of radical changes in tariff policies, and recognizes that temporary fluctuations may occur in response to seasonal and psychological influences. It should also be added that the cost of transportation must be allowed for and that certain variations

of the general price level from the prices of goods entering into international trade must be taken into account.”—CHANDLER, *Commerce Monthly*, May, 1921, p. 6. Explain the influence of each of these factors on the actual market rate of exchange.

330. “Sterling exchange in New York during the war was generally maintained at a very slight discount below par, and from the end of 1916 to March 20, 1919, was maintained at a discount of only about two per cent, . . . despite the restrictions on shipments of gold from London, despite the virtual suspension of gold payments in London, and despite the gigantic adverse trade balance of Great Britain. . . . The British Government was using its credit for borrowing in New York and was using the proceeds of its borrowing to protect sterling exchange. . . . Through much of 1916 and down to the entry of the United States into the war in 1917, the banking house acting for the British Government in the United States was purchasing in the New York market sterling exchange in an amount averaging \$10,000,000 per day. . . . With the entrance of the United States into the war many billions of dollars were placed at the disposal of the British Government and were used both for new purchases and for the protection of sterling exchange.”—ANDERSON, *The Chase Economic Bulletin*, January, 1922, p. 14.

a. Show why the conditions mentioned at the close



of the first sentence should have been expected to reduce the rate of exchange on London.

b. Explain just how sterling exchange was *protected*. Could the word *purchase* be properly substituted for the word *protect* in this quotation?

## XXII.

### FOREIGN TRADE AND THE TARIFF.

#### A. THE THEORY OF FREE TRADE.

331. "Domestic trade cannot increase the wealth of the nation. It is only by foreign trade, and then only by getting more than is given, that a nation can enrich itself." Discuss.—(T.)

332. Country A can produce pig iron at a cost of ten days' labor per ton and broadcloth at a cost of five days' labor per yard. Country B can produce the iron at a cost of fifteen days' labor and the cloth at a cost of six days' labor. The comparative costs of the two articles in each of these countries is, then, as follows: Country A, one ton equals two yards; Country B, one ton equals two and one-half yards.

a. Prove in detail that if transportation and all costs other than labor be ignored, exchange of these products between A and B will pay.

b. Is such exchange in line with social economy?

c. Which country is the more efficient in producing iron? In producing cloth?—(T.)

333. Country X can produce wheat at cost of one-half day's labor per bushel and knives at a cost of one and one-half days' labor per dozen; Country Y can produce the wheat at a cost of one day's labor and the knives at a cost of two days' labor. Which country is the more efficient in producing wheat? In producing knives? Will exchange pay? Prove in detail.

334. Prove that exchange will not pay if comparative costs are equal.

335. "We know that England can make ships more cheaply than we can, and so we should let her do the shipbuilding and turn our capital to such things as we can do better than she can." Assuming the conclusion—that we should let England build the ships—to be sound, show from the principle involved in problems 332 and 333, that the reason given is not satisfactory.

336. "The great advantage of foreign trade is in furnishing a market for our surplus products which would otherwise go to waste." Why do we produce more of certain kinds of goods than we care to consume? Are these "surplus" products? Is a farmer's corn crop a surplus to him? Discuss.

337. "It will never pay us to import anything

which we ourselves can produce." Show that this proposition is erroneous.

338. "If we buy rails from England, we get the rails, of course, but they get our money; while, if we buy rails at home, we have the rails and the money too."—A statement falsely credited to Lincoln.

*a.* Is there any reason to expect that our buying rails in England would carry off our regular stock of money? Explain.

*b.* Should we regret such trading because it decreases our stock of money, if that should result?

*c.* Substitute "cotton" for "money," throughout the above quotation, and show the fallaciousness of the doctrine.—(T.)

## B. THE THEORY OF PROTECTION.

339. What is a tariff for revenue only? A tariff for protection? What general class of goods would bear a duty in the one case? In the other?

340. *a.* What is the "infant industry" argument?

*b.* Is it economically sound?

*c.* This argument implies that tariffs should be maintained for how long a period of time?

*d.* Is "infant industry" protection likely to be permanent? Discuss.

341. "Though injurious economically, a protec-

tive tariff may be justifiable politically if there is sufficient likelihood of war."

*a.* Give the supporting argument.

*b.* Cite historic illustrations in support of this position.

342. "Germany, with a tariff policy, has had the advantage of free-trade England in securing tariff concessions in foreign countries." Explain. Does this furnish an argument in favor of protective tariffs?

343. "A protective tariff works towards national efficiency, for it takes wealth from those who are less capable and puts it into the hands of those who are more capable." Show that a protective tariff may have this result. Do you consider this a valid argument in favor of protection?

344. *a.* Why are custom duties a popular means of getting revenue?

*b.* How can they be used to secure revenue without furnishing protection? How is this done in England?

### C. THE RELATION OF GOODS EXPORTED TO GOODS IMPORTED.

345. "Farmer Jones went in debt last year for \$4,000 worth of machinery, tile, fertilizer, and other

equipment for his new farm, but sold only \$2,000 worth of produce."

*a.* Is Jones following a foolish policy?

*b.* Part of his crop during the ensuing years must be used for what purpose?

*c.* Compare his exports and imports for the first year mentioned; for the years immediately following.

*d.* If Jones later loans money to his neighbors, how will the exports and imports of his farm compare during the years he makes these loans?

*e.* How will they compare if he then decides to "live better,"—not to loan out so much money each year?

*f.* What similarity is there between this case and our relation thus far with Europe?

346. *a.* What should you expect to be the relation between the goods exported and the goods imported of a country during the following periods: (1) When it is first open to settlement or to industrial enterprise; (2) when it has become quite well supplied with imported capital goods; (3) when its citizens begin to make investments in other countries; and (4) when a relatively large amount of such foreign investments have been made?

*b.* In which of these stages is the United States? England? Mexico?

347. Will the following tend to increase our exports of goods or our imports of goods: Explain.

*a.* Foreign travel by Americans?

- b. Travel in America by foreigners?
- c. Transportation of American exports in foreign ships?
- d. Borrowing of European capital?
- e. Interest payments on capital borrowed?
- f. Payment of capital borrowed?
- g. Loaning of capital abroad?
- h. Receiving interest from abroad?
- i. Insuring in foreign insurance companies?
- j. Maintenance of American ambassadors abroad?
- k. Supporting foreign missionaries?
- l. Export of gold?
- m. Sending home of money by immigrants?

348. "A favorable trade balance is an excellent sign of vigorous national life, and of a sound economic structure. It means that the nation is taking in more than it is paying out."—STRAUS, *Investor's Magazine*, Dec. 1, 1914.

- a. Do you agree with the first statement?
- b. Illustrate this point by comparing our "favorable," with England's "unfavorable," balance of trade.
- c. State the various things that a favorable balance of trade may mean.

349. "The true way to quicken foreign demand (for British goods) was to open the ports to that foreign supply with which they paid us for what they

bought from us.”—MORLEY’S *Gladstone*, vol. 1, p. 267. Show that the above is sound doctrine.—T.

250. Do the labor and capital of a country tend to go into the most profitable lines of industry? If a protective tariff, or a bounty or subsidy, is used to divert labor and capital into lines of industry that they would not otherwise enter, what will tend to be the effect upon national prosperity? Is it always best, for the nation, to have business men devote themselves to the work at which they can make the most profit? Is it generally best? Discuss—illustrate.

#### D. THE COST OF PROTECTION.

351. “Tariff legislation encourages and develops sectional selfishness.” Explain.

352. “A protective tariff fosters political corruption.” How can this be true? Has protection in the United States had this result? Explain and illustrate.

353. “A protective tariff tends to hasten the destruction of our natural resources.”—SEAGER, p. 402.

“On the contrary, free trade, by stimulating competition, makes it uneconomical to conserve our lum-



ber, for example; it becomes economical to cut only the largest trees."

Discuss the point at issue.

354. "The protective tariff is the mother of trusts." Do you see any reason for this view? Explain.

355. The amount added to a price by a tariff duty does not represent a social cost if the good will be produced without the tariff; but it does represent a social cost if the protective duty is necessary to the production of the good. Show that this is true. Then is protection less objectionable when it is not needed? What is the objection to it in such a case?

356. "A reduction of \$60,000,000 in tariff duties means a reduction in the burden upon the people's consumption of approximately \$600,000,000."—SENATOR NEWLANDS, in *The Independent*, 73:757. Explain.

357. "To the same extent that the home market is wrested from foreigners and given to protected home producers, the foreign market is wrested from unprotected home producers."—SEAGER, p. 403. Show that this is necessarily true.—T.

## XXIII.

### MONOPOLY.

358. "The monopoly problem is one of the most important practical questions with which economics has to deal."—SEAGER, p. 407. Justify this statement.

359. What conditions warrant the establishment of a public legal monopoly? Illustrate.

360. Give an example of a private legal monopoly. Should this monopoly have been given?

361. "If a patentee does not make use of his patent it should be revoked." Do you agree? Discuss fully.

362. What is a natural monopoly of situation? A capitalistic monopoly? Give examples of each.

363. "Monopoly is more economical socially than competition." Explain what is meant and discuss the validity of the statement. If the statement is true, does it follow that we should encourage monopoly? Explain.

364. "Monopoly is the natural product of industrial evolution." Show that there is some ground at least for accepting this statement.

365. See questions on monopoly price in section VI.

366. Should the following be furnished to the residents of a city by a company having a monopoly, or by competing companies: water, ice, gas, electricity, milk, bread, telephone service, street railway transportation, taxi-cab service? Give reasons for conclusion in each case. If the decision is in favor of monopoly, specify the form of public control that should prevail—public ownership or regulation.

367. "The franchises granted by these cities are the best possible for the gas companies."—A dealer in gas company bonds.

*a.* Name some of the probable stipulations in these franchises. Suggest some probable omissions.

*b.* How should you wish the franchises changed if you were a citizen of one of these cities? If you were a citizen, but at the same time a subscriber to the stock of the gas corporation?

368. Should the policy of the United States government be to destroy monopolies or to regulate them? Discuss the issues involved.

## XXIV.

### THE RAILROAD PROBLEM.

IV

369. A certain American railroad is said to haul freight at an average cost of one mill per ton-mile.

*a.* What is a ton-mile?

*b.* How is the railroad able to carry freight at such a low cost?

*c.* What would be the cost at this rate of shipping a ton of shoes one thousand miles? About what would be the cost for each pair of shoes?

*d.* What is the social significance of this low cost of transportation?

370. Enumerate the principal costs which a railroad has to meet. How are these various items of cost affected by, say, a ten per cent increase in traffic? How would dividends be affected by such an increase in traffic if rates remained as before? Is it possible that dividends can be increased by charging a special low rate for this additional traffic?

371. Try to estimate the added cost involved in carrying (*a*) a ten-pound box from Minneapolis to Chicago; (*b*) an additional box-car empty; (*c*) an additional box-car loaded.—(C.)

372. If empty cars are being brought to Minneapolis to be filled with flour, at what rates may the railroads profitably offer to haul freight in them to Minneapolis? May there be social disadvantages in allowing the railroads to carry freight at these low rates? Explain.—(C.)

373. Show that if a railroad runs from A to C through B, it might be to the interest of the shippers at B, if the railroad were allowed to carry freight from A to C at a less rate per ton than is charged for carrying freight from B to C. Give a practical illustration of this problem by substituting the names of cities in the United States for the letters.

374. Should freight rates be based on the cost of rendering service or on "what the traffic will bear"? At least what costs must be covered in every case? Illustrate. How should the relative rates for hay and brick be determined? Discuss.

375. "It is an elementary law of trade that better prices per unit should be made for large quantities than for a small quantity. Then why should you object if railroads make special rates for large shipments?" Discuss.

376. "The law does not attempt to prohibit a merchant from selling to different individuals at different prices or even from giving away his wares.

Then why should the railroads be so hedged about by legal prohibitions upon the prices to be charged?" Discuss.

377. "The Standard Oil Company entered into a contract with a railroad under which the railroad was to charge it only ten cents per barrel for transporting its oil while charging other companies thirty-five cents for the same service, and was to pay to it twenty-five cents of the excessive charge imposed upon its competitors."—SEAGER, p. 439.

a. Estimate the advantage that this gave to the Standard Oil Company.

b. Why should the railroad have wished to enter into such a contract?

c. Were the directors of this company guilty of moral turpitude in making such a contract? Were the officers of the railroad?

378. "The fact that railway service is subject to decreasing cost has made public regulation of rates more imperative than it would otherwise have been." Explain.

379. Should federal regulations extend to intra-state business? Argue both affirmatively and negatively.

380. "The power to tax railroads and the power

to regulate their rates should be lodged in the same hands." Give supporting argument. Should the power to adjust wages be exercised by the board that fixes rates? Discuss.

381. List the principal arguments for and against federal ownership of railroads.

## XXV.

### THE LABOR PROBLEM.

382. "The labor problem has arisen because the machine has been substituted for the tool." Do you agree? Discuss.

383. Compare the ability of a wage-earner to get the maximum wage that competition will permit, with the ability of a dealer in raw material to get the maximum price that competition will permit. In how many respects do they differ?

384. "It is generally considered bad form for an employer to entice an employee away from a fellow employer by offering an increase in wages." Is this true? If it is, how do you account for it? Does it at all explain trade unionism?

385. "If we had perfectly free competition among employers and perfect mobility among employees, labor unions would be of no avail in determining wages, save as they limited the number of wage workers in particular employments." Argue in support of this statement.



386. Certain persons see in trade unionism an attempt on the part of the wage-workers to control, in part, their industrial life, just for the sake of control. Do you see any reason for this view? Is there any similarity between a desire for membership in a trade union and the desire for a share in the control of political affairs? Discuss.

387. "College professors are demanding, more and more, a share in the administrative control of our colleges and universities." If this is true, does it help us to understand trade unionism?

388. What should you expect would be the effect of the following upon trade unionism: An extension of educational opportunities? Prohibition? The exclusion of immigrants? The elimination of the mentally "unfit"?

389. Is this any reason why employers should prefer to use the term *open shop* rather than the term *non-union shop*?

390. "Employers and employees often forget that they have duties to society."

a. Give several illustrations of this point.

b. Have street car operators a right to strike and prevent the cars from being run? Explain fully.

c. Is this aspect of industry, social dependence

upon particular industries, becoming more pronounced? Explain and illustrate.

391. "It is manifestly unfair for a labor unionist to refuse to work at a given wage and at the same time to deny to his unemployed brother the right to work at this wage." Discuss the issue involved.

392. Samuel Gompers, president of the American Federation of Labor, in testifying before the Senate committee that was investigating the steel strike in 1919 referred to the welfare work of the United States Steel Corporation as "hell-fare work." Account for his attitude.

393. "So long as there is only a limited amount of economic income and limited opportunity for control there will be a conflict over the division of the same." Do you agree? Discuss.

## XXVI.

### GOVERNMENT EXPENDITURE AND GOVERNMENT REVENUE.

#### A. INTRODUCTION.

394. What is the question that must be answered in determining whether or not there has been a real increase in the burden of public expenditure?

395. "The paying of taxes involves no hardship, for what the government takes from the taxpayer it immediately returns to him for goods and services." Criticise. Discuss the truth of the statement if the "for" near the end of the sentence were changed to "in."

396. "Expenditures for military purposes are justifiable, as they furnish employment to men who might otherwise starve." Examine.

397. What connection is there between the following factors and the amount of government expenditures: The spirit of nationalism, democracy, skill in the mechanical arts, city life? Illustrate.

398. "The entire question (of the government's taking over certain activities) turns upon the choice of the means of satisfying certain common collective wants."—ADAMS, *The Science of Finance*, p. 67. Justify this statement. Mention the elements that influence choice in this matter.

## B. REVENUE.

399. "The fee system is bad when the fees are retained as salary by the officer collecting them." Discuss.

400. What should determine the proportion of the cost of street paving that should be paid by special assessment? What is the rule in your city?

401. Adam Smith's four canons of taxation may be characterized as follows: Aibility, certainty, convenience, and economy. Amplify and illustrate each canon.

402. "No tax can be just unless it leaves individuals in the same relative condition in which it found them."—McCULLOCH, *Treatise on Taxation*, quoted from BULLOCK's *Selected Readings in Public Finance*, p. 240. Examine.

403. "Equity in the apportionment of taxes reduces the burden for the support of the state to its

minimum.”—ADAMS, *The Science of Finance*, p. 322. Explain.

### C. SHIFTING AND INCIDENCE OF TAXES.

404. Shifting of taxes is a price phenomenon. The shifting of a tax can take place only through a withholding of supply.

a. Argue in support of the second statement. Illustrate.

b. Can a tax upon houses be shifted to tenants? Can a tax upon land, levied according to land value, be shifted to tenants? Explain.

405. Should you expect a tax upon excess profits to increase the price of goods? Explain.

406. Suggest a plan for corporation taxation that would not allow shifting; one for the taxing of merchants.

407. See problems in section VI that involve shifting of taxes.

### D. THE INDUSTRIAL RESULTS OF TAXATION.

408. “A heavy tax on the rich might have the same consequence for the poor as would, say, a mod-

erate tax on wages.”—PIERSON, *Principles of Economics*, ii, p. 387. Argue for this proposition.

409. “The effect of placing heavy taxes on the very rich is most harmful in countries which own few securities (either domestic or foreign), or in countries owning securities for which no market can be found abroad.”—PIERSON, *Ibid.*, p. 389. How can this be true?

410. “Taxation as a weapon of retaliation often proves to be a boomerang.”—SELIGMAN. Give several possible illustrations.

411. “Every tax discourages some kind of production because the aim of taxation is to divert a portion of the productive force of the community from producing what individuals desire as individuals to producing something else which they desire in their corporate capacity.”—CANNAN, *Equity and Economy in Taxation*, *Econ. Jour.*, 11:476.

a. Illustrate the truth of the quotation by assuming a tax to be placed on furniture; on cattle; on the income of teachers.

b. Is this what is usually meant by saying that a tax discourages production? Does a tax on land value tend to discourage production? Distinguish between a decrease in total production and a change in the form of production.

412. "We (should select) in the imposition of fresh taxes commodities for which substitutes cannot easily be found and with which consumers will not willingly dispense, in order that the incidental loss to producers may be as small as possible."—SIDG-WICK, *Principles of Political Economy*, p. 573. Explain.

### E. THE GENERAL PROPERTY TAX.

413. Is all property equally able to bear taxes? Explain.

414. Why is the general property tax particularly unsuited to the taxation of business and professional men?

415. "Although credits may be included within the term 'property' from the point of view of law, they are not property in any true economic sense."—PLEHN, *Introduction to Public Finance*, p. 185. Defend this statement.

416. "Minnesota taxes money and credit at the rate of three mills, while it taxes other property from six to eight times this rate. This is justifiable both theoretically and practically." Explain.

417. "Strictly enforced the general property tax must inevitably impose a burden upon forest lands

which in certain cases might easily amount to one-half or even three-fourths of the total income when finally received.”—FAIRCHILD, *Proceedings of the National Tax Association*, 1912, p. 373. Mention other things of which the above is true. Does this constitute an argument against the general property tax? Explain.

#### F. THE INHERITANCE TAX.

418. The inheritance tax is justified on several different grounds. Suggest three or four of these. Which is the best?

419. Is a national inheritance tax preferable to state inheritance taxes? Discuss.

420. Examine the following propositions:

- a. Rates on inheritances should vary inversely with nearness of kin.
- b. Rates should vary directly with nearness of kin.
- c. Rates should not vary with relationship.
- d. Rates should not vary with the amount inherited.

#### G. THE INCOME TAX.

421. “The only possible objection to relying almost exclusively upon an income tax for public rev-



enue is that it is difficult, or impossible, to administer it properly."

a. Develop an argument in support of this contention.

b. Is the difficulty of proper administration insurmountable? Discuss.

422. Give several illustrations to show what is meant by "collection at the source."

423. "We rely upon 'information at the source' rather than 'collection at the source' in our national income taxation." Explain.

424. Argue that income from personal services should be taxed at a lower rate than income from property.

425. Account for the growing demand for state income taxes in this country.

426. Is there any objection to having both a national and a state income tax? Would that amount to double taxation?

#### H. THE TAXATION OF CORPORATIONS.

427. Should corporations be taxed at the rates imposed upon other property?

428. "The service charges of public utility corporations should be pushed down to a no-tax basis and the corporations exempted from taxation." Give arguments for and against.

429. Should not Michigan residents holding stock in an Ohio corporation be free from taxation upon the stock inasmuch as Ohio taxes the corporation? Should they not be taxed upon it that they may share in the burden of their state government?

430. "Life insurance is a tax, and to tax it is to commit the economic barbarism of taxing a tax."—An insurance journal.

a. What does the author mean by calling life insurance a tax? Is he justified in so characterizing it?

b. Show that the tax on insurance companies is not inequitable.

431. What is the proper basis for the taxing of corporations: property, gross revenue, or net revenue? Explain.

432. How shall the property value of a railroad be apportioned, for purposes of taxation, to the different political divisions through which the road runs?

433. "Taxes levied upon the revenue of corpora-

tions usually have a property basis, and thus revenue taxation cannot be defended on the ground that it avoids the difficulties of a property valuation."

Examine.

## I. SINGLE LAND TAX.

434. State the argument for a single land tax; against it.

435. "A tax on goods increases their price, a tax on land decreases its price. The aim should be to make all things low in price. Therefore, we should tax land only." Discuss.

436. "Rent is a price paid for the management of land in the industrial system." Argue in support of this statement. What bearing has this on the single tax controversy?

437. Contrast the position of the Physiocrats in regard to a single land tax with that taken by Henry George.

438. Sismondi asked, in answer to a demand for a revision of the land tax, "Do you wish equality between men or between lands?" Show that this question was pertinent.

439. What relation is there between the tax on the

unearned increment of land and the single land tax? What is the vital difference between them?

440. "An expected increase in land value is included in the purchase price." Explain. Suggest a plan for taxing the increase in land value that will not confiscate present value.

441. What objection, other than that of confiscating from present owners, is there to taxing away all of the increase in land value?

442. What is the objection to modifying the general property tax in the one particular of taxing away the benefits resulting from the privilege of land ownership?

## XXVII.

### PROJECTS OF ECONOMIC REFORM.

443. "The economist reformer necessarily bases his proposals upon some concept of an ideal society."

a. Outline briefly the main features that you would expect in an ideal society.

b. Are any economic reforms necessary to the realization of, or to the approach toward, this ideal? If so, what are they?

444. "Proposed reforms are 'mechanical' or 'evolutionary.'" Distinguish between these two classes of proposals. Illustrate each.

445. "Pecuniary gain, not social utility, guides individuals in their industrial conduct." Show that desire for pecuniary gain may lead to the best service for society; that it may lead to harmful, or at least not to the best, service. Which condition is the more prevalent? If price (desire for pecuniary gain) does not regulate industrial conditions in the interest of society, what can we do about it? Answer explicitly.

446. "As our industrial relations become more complex, social control becomes more necessary."

a. Are our industrial relations becoming more complex? Explain and illustrate.

b. Give illustrations of social control over industry, or industrial conditions.

c. May social control be due in some instances not to the growing complexity of industrial relations but to the growth of the social conscience—to the extension of the spirit of brotherhood? Illustrate.

447. "Medical assistance is so vital to the health and life of the people that it will sooner or later be socialized." What is meant by this statement? How could medical assistance be socialized? What would be the advantage gained? Would there be any disadvantage? Would this be an "economic reform"?

448. "Canal dues and highway tolls have been abolished, but railway freights (on government owned roads) never: why the one and not the other?" —PIERSON, *Principles of Economics*. Answer.

449. Should the state furnish university instruction without expense to the student? If the state gives instruction without expense, why should it not also support the student during the years of study?

450. Suppose that X. and Y. are twins, and of equal native capacity. Suppose that their parents

die when they are young, and that X. is then brought up and educated by a rich uncle, while Y. is brought up but not given much education by a poor aunt. X. makes an income of \$10,000 per year; Y. makes one of \$500. Is this right?—P.

451. "The practices of scientific advertising and of suggestive selling have very little proved utility and are nearly as likely to be applied to force the wrong articles on the wrong purchasers as to distribute wealth along the lines of its maximum utility for consumption."—HOBSON, *Work and Wealth*, p. 218. Evaluate this statement. Accepting it as true, what should be our attitude toward the practices mentioned?

452. "If there are trades incapable of bearing the true costs of maintenance of the labor they employ (in wages and insurance), it would still be right to place on them the obligation to do so, for their destruction will be a gain, not a loss, to a society that understands its human interests."—HOBSON, *Ibid.*, p. 230.

a. Suggest the various kinds of insurance that might be included here.

b. Give argument in support of this contention.

c. Argue in opposition to this contention. Show that industry as a whole might be in such a condition that these costs could not be borne. Should a

person be prohibited from working, if he cannot earn the total costs of his maintenance?

453. "Equality in income would result in a great waste in the social utility derived from consumption."  
—HOBSON. Defend this statement.

454. In the preface to *Munera Pulveris*, Ruskin criticises the teachers of economics, and by inference the industrial order, because those things which are "illth" may be rated above those things which are "wealth."

a. Give a few illustrations to show that we often make the mistake to which Ruskin objects.

b. Accepting this to be a regrettable condition, what can we do about it?

c. As time goes on, do you believe that market estimates will become more, or less, accurate in estimates of "wealth"? Explain.

455. "No longer do men see it wise to work fourteen hours per day. . . . The fact that there are no men to regret these shorter hours with their limitation of product amounts to a direct approval of the choice of leisure as against product. What determines that the final wise limit of restriction upon labor and product has already been reached?"—  
DAVENPORT, *The Annalist*, Nov. 8, 1915.

a. Do you believe that the average working day should be shortened still more?



b. Formulate a general statement as to when it is advisable to substitute leisure for product.

c. In this same article Davenport makes a similar point in regard to the saving of capital. Formulate a proposition and a question in line with this position.

456. "How far is it true that the pleasure of the wearer of pearls can be regarded as offsetting the pains and dangers of the pearl diver? The wearing of hand-made lace as offsetting the making of it? The artificial flowers, the labor of the flower girl?"  
—DAVENPORT, *Ibid.*

a. State definitely the point that Davenport is making here.

b. If the pleasure to the user does not offset the pain to the producer, should the article be produced? Discuss fully, stating some ground, at least, for not taking the negative view?

c. State the difference between the point in this quotation and that in the preceding one.

457. "No person should be allowed to give his heirs more than \$1,000,000."

a. Argue that large fortunes are socially undesirable.

b. What may be the danger in such a policy of inheritance taxation as is suggested here?

c. "If the large fortunes are undesirable, condi-

tions should be adjusted so that they cannot be accumulated." Do you agree?

458. "All 'unearned' incomes should be taxed into the treasury of the state." What is meant by unearned income? Is there an element of this kind in the landlord's income? In the return to a stock speculator? In a lawyer's income? In a professor's salary? In a laborer's wages?

459. "It is inevitable that certain persons should ride and that others should walk, but we should make the walking as good as possible."

*a.* Is inequality of income inevitable? Explain.

*b.* Name several social and economic improvements that are suggested by the second clause.

## DIRECTIONS TO THE STUDENT.

### I. *Attacking the Problems.*

1. Read the assigned problems carefully.
2. Study the text or other assigned reading, keeping the problems in mind.
3. Make sure that you understand the terms used in the problems.
4. Determine the particular point at issue.
5. Bring to bear upon the problem all the knowledge you possess that relates to it, whether gained from the text, lectures, class-room discussion, or personal experience. Consult your *notes*.
6. State your answer definitely and adequately. Yes and no answers are never permissible; *explain, discuss*, but do not say more than is necessary; be *succinct*. Where possible, *state the economic principle involved* and give illustrations, preferably original ones.

### II. *Preparing and Correcting the Written Exercises.*

The following directions, which appeared in the original local edition of this book, are included here

for the convenience of such teachers as may care to use them.

Students will prepare the solutions to the problems, which are assigned to be written, upon "economics paper."\* The student's seat number and his name shall be placed on the first and second lines in the center of the first page, the instructor's name and the number of the recitation section on the third and fourth lines at the left of the page, and the exercise number and the assignment on the third and fourth lines at the right of the page. For example:

156  
A. B. Smith

Mr. \_\_\_\_\_

Sec. 5.

Ex. 7

70, 71, 73, 75-77

The following scheme of marking will be used: ✓ signifying excellent; no mark, good; wave line, something wrong; p, missed the point; i, incomplete; v, vague; a, inadequate; q, see the question; x, wrong. A check (✓) placed at the top of the first page will indicate that the paper as a whole is excellent or very good; a cross (X) will indicate that it is below grade. The papers will be marked and returned to the student to be corrected, in red ink, and returned to the instructor. Papers which do not need corrections shall also be returned to the instructor for filing. The student will label all of the returned papers *corrected*.

\* This paper consists of two sheets about  $9\frac{1}{2}$  inches by 12 inches stapled together and folded into four pages.





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